

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/ Underwriting Property



Underwriting Property

Introduction

This subpart contains property eligibility and underwriting policies for conventional loans for sale to Fannie Mae.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/ Appraisal Guidelines



Appraisal Guidelines

Introduction

This chapter describes Fannie Mae appraisal policies, guidelines, and requirements.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.1, General Appraisal Requirements/ B4-1.1-01, General Information on Appraisal Requirements (10/30/2009)



B4-1.1-01, General Information on Appraisal Requirements (10/30/2009)

Introduction

This topic contains general information on appraisal requirements, including:

- Lender Responsibilities
- Home Valuation Code of Conduct
- Confirmation and Documentation of the Current Owner
- Acceptable and Unacceptable Areas
- Examples of Unacceptable Appraisal Practices
- Additional Resources

Lender Responsibilities

The lender is responsible for:

- the accuracy and completeness of the appraisal and its assessment of the marketability of the

property;

- selecting the appraiser;
- underwriting the completed appraisal report to determine whether the subject property presents adequate collateral for the mortgage;
- continually evaluating the quality of the appraiser's work through normal underwriting review of all appraisal reports and spot-check field review of appraisals as part of its quality control system;
- ensuring that the appraiser uses sound reasoning and provides evidence to support the methodology used for developing the value opinion, particularly in cases that are not covered by Fannie Mae guidelines;
- ensuring that the appraiser provides an accurate opinion, an adequately supported value, and an accurate description of the property;
- ensuring that the appraiser provides his or her license or certification number on the individual appraisal report forms; and
- complying with the Home Valuation Code of Conduct.

Lenders must take appropriate action to ensure that appraisers do not engage in unacceptable appraisal practices.

In particular, lenders must not apply pressure or otherwise attempt to influence appraisers to reflect certain results in the appraisal analysis or reporting.

See B2-1.4-01, General Mortgage Terms and Conditions (04/30/2010), for information concerning the requirement that lenders must warrant that the current value of the property is not less than the original value for mortgage loans that are more than four months old from the loan closing date to the date the loan is sold to Fannie Mae.

Home Valuation Code of Conduct

By delivering loans to Fannie Mae, lenders represent and warrant that appraisals conducted in connection with single-family mortgage loans, other than government-insured and - guaranteed loans, conform to the Home Valuation Code of Conduct ("HVCC")

Confirmation and Documentation of the Current Owner

Lenders must confirm and document in the mortgage file that the property seller in a purchase money transaction or the borrower in a refinance transaction is the owner of the subject property when a new appraisal is required. This documentation is especially important for transactions involving an assignment (or sale) of a contract for sale and back-to-back, simultaneous, double transaction closings, or double escrows to support the property acquisition, financing, and closing.

Confirmation that the property seller in a purchase money transaction (or the borrower in a refinance transaction) is the owner of the subject property based on publicly available information helps to identify unacceptable property flipping schemes, which typically involve various combinations of transactions and result in a sale of a recently acquired, distressed property for significant profit based on a misleading or fraudulent appraisal with an inflated property value.

Acceptable and Unacceptable Areas

Fannie Mae does not designate areas as being acceptable or unacceptable. Fannie Mae does business in all markets.

Examples of Unacceptable Appraisal Practices

The following are examples of unacceptable appraisal practices:

- Development of and/or reporting an opinion of market value that is not supportable by market data or is misleading.
- Development of a valuation conclusion based either partially or completely on the sex, race, color, religion, handicap, national origin, familial status, or other protected classes of either the prospective owners or occupants of the subject property or the present owners or occupants of the properties in the vicinity of the subject property.
- Development of a valuation conclusion based on factors that local, state, or federal law designate as discriminatory, and thus, prohibited.
- Misrepresentation of the physical characteristics of the subject property, improvements, or comparable sales.
- Failure to comment on negative factors with respect to the subject neighborhood, the subject property, or proximity of the subject property to adverse influences.
- Failure to adequately analyze and report any current contract of sale, option, offering, or listing of the subject property and the prior sales of the subject property and the comparable sales
- Selection and use of inappropriate comparable sales.
- Failure to use comparable sales that are the most locationally and physically similar to the subject property.
- Creation of comparable sales by combining vacant land sales with the contract purchase price of a home that has been built or will be built on the land.
- Use of comparable sales in the valuation process when the appraiser has not personally inspected the exterior of the comparable property.
- Use of adjustments to comparable sales that do not reflect market reaction to the differences between the subject property and the comparable sales,
- Not supporting adjustments in the sales comparison approach.
- Failure to make adjustments when they are clearly indicated.
- Use of data—particularly comparable sales data—provided by parties who have a financial interest in the sale or in the financing of the subject property without the appraiser's verification of the information from a disinterested source.

- Development of an appraisal or reporting an appraisal in a manner or direction that favors the cause of either the client or any related party, the amount of the opinion of value, the attainment of a specific result, or the occurrence of a subsequent event in order to receive compensation and/or employment for performing the appraisal and/or in anticipation of receiving future assignments;
- Development of and/or reporting an appraisal in a manner that is inconsistent with the requirements of the Uniform Standards of Professional Appraisal Practice in place as of the effective date of the appraisal.
- Failure to address and note adverse factors or conditions that affect value or marketability with respect to the neighborhood, site, or improvements.
- Use of unsupported descriptive comments or drawing unsupported conclusions from subjective observations. These actions may have a discriminatory effect.
- Use of unsupported assumptions, interjections of personal opinion, or perceptions about factors in the valuation process. These actions may have a discriminatory effect, and may or may not affect the use and value of a property.
- Use of unacceptable terminology including but not limited to:
 - “pride of ownership,” “no pride of ownership,” and “lack of pride of ownership,”
 - “poor neighborhood,”
 - “good neighborhood,”
 - “crime-ridden area,”
 - “desirable neighborhood or location,”
 - “undesirable neighborhood or location.”

Other subjective terminology that can result in erroneous conclusions is equally unacceptable.

Additional Resources

For additional guidance on performing appraisals and underwriting appraisals of property that secures mortgage loans delivered to Fannie Mae, see [Guidance for Lenders and Appraisers](#).

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcement	Issue Date
Announcement 09-32	October 30, 2009
Announcement 09-01	January 7, 2009

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4,

Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.1, General Appraisal Requirements/ B4-1.1-02, Lender Disclosure of Information to Appraisers (10/30/2009)



B4-1.1-02, Lender Disclosure of Information to Appraisers (10/30/2009)

Introduction

This topic contains information on lender disclosure of information to appraisers, including:

- Lender Disclosure of Information to Appraisers
- Information That Must Be Disclosed

Lender Disclosure of Information to Appraisers

The lender must disclose to the appraiser any and all information about the subject property of which it is aware, if the information could affect either the marketability of the property or the appraiser's opinion of the market value of the property.

The lender must provide the appraiser with all appropriate financing data and sales concessions for the subject property that will be, or have been, granted by anyone associated with the transaction. In addition, the lender must provide the appraiser with a copy of the complete, ratified sales contract and all addenda for the property that is to be appraised, therefore ensuring that the appraiser has been given the opportunity to consider the financing and sales concessions in the transaction and their effect on value. If the lender is aware of additional pertinent information that is not included in the sales contract, the lender must inform the appraiser. If the sales contract is amended during the process, the lender must provide the updated contract to the appraiser.

Information That Must Be Disclosed

The table below provides a list of required information that must be disclosed to appraisers.

✓	Requirement
	settlement charges
	loan fees or charges
	discounts to the sales price
	payment of condo or PUD fees
	interest rate buydowns
	below-market-rate financing
	credits or refunds of borrower expenses
	absorption of monthly payments
	assignment of rent payments
	non-realty items included in the transaction
	any environmental hazard information obtained from the borrower, the real estate broker, or

any other party to the transaction so the appraiser can consider any influence the hazard may have on the value and marketability of the property.

Lenders must disclose environmental hazard information that is in or on the subject property, or in the vicinity of the property.

Related Announcements

The table below provides references to the Announcements that have been released that are related to this topic.

Announcement	Issue Date
Announcement 08-30	November 14, 2008

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.1, General Appraisal Requirements/ B4-1.1-03, Appraiser Selection (04/01/2009)



B4-1.1-03, Appraiser Selection (04/01/2009)

Introduction

This topic contains general information on appraiser selection.

- Lender Responsibilities Regarding Appraiser Selection
- Definition of the Appraiser

Lender Responsibilities Regarding Appraiser Selection

The following table details the lender's responsibilities regarding the selection of appraisers.

✓	Lender Responsibilities
	Lenders must obtain an independent, disinterested examination and valuation of the property that secures a mortgage sold to Fannie Mae.
	Lenders must be aware of, and in full compliance with, state laws for licensing and certification of real estate appraisers.
	Lenders must use appraisers who <ul style="list-style-type: none"> • are state-licensed or state-certified in accordance with the provisions of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. • have the requisite knowledge required to perform a professional quality appraisal for the specific geographic location and particular property type • have the requisite knowledge about, and access to, the necessary and appropriate data sources for the area in which the appraisal assignment is located.

	Appraisers who are not familiar with specific real estate markets may not have adequate information available to perform a reliable appraisal.
	lenders must select the appraiser. Note: Fannie Mae does not approve appraisers. Therefore, when selecting appraisers, lenders must not give any consideration to an appraiser's representation that he or she is approved or qualified by Fannie Mae.
	Lenders must select appraisers who are currently active in appraisal work.
	Lenders must order and receive the appraisal report for each mortgage transaction. Lenders may not use appraisals ordered or received by borrowers or other parties with an interest in the transaction, such as the property seller or real estate broker.
	Lenders must ensure that appraisers provide accurate descriptions of condo and co-op projects, and include characteristics that may indicate that a project is ineligible.
	Lenders must document that the appraisers it uses are licensed or certified as appropriate under the applicable state law, either by: <ul style="list-style-type: none"> • including the license or certification number with the appraiser's list of qualifications that the lender has on file, or • retaining a copy of the license or certification in the file the lender maintains for the appraiser.

Definition of the Appraiser

Fannie Mae's appraisal report forms define the appraiser as the individual who personally:

- inspected the property being appraised,
- inspected the exterior of the comparables,
- performed the analysis, and
- prepared and signed the appraisal report as the appraiser.

This definition does not preclude appraisers from relying on individuals who are not state licensed or state-certified to provide significant professional assistance, such as an appraiser trainee or an employee of the appraiser doing market data research or data verification, in the development of the appraisal.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.1, General Appraisal Requirements/ B4-1.1-04, Use of Supervisory or Review Appraisers (10/30/2009)



B4-1.1-04, Use of Supervisory or Review Appraisers (10/30/2009)

Introduction

This topic contains information on use of supervisory or review appraisers, including:

- Property Inspection Must Be Performed by the “Appraiser” Who Signs the Appraisal Report
- Supervisory Appraiser
- Review Appraisers

Property Inspection Must Be Performed by the “Appraiser” Who Signs the Appraisal Report

Fannie Mae allows an unlicensed or uncertified appraiser who works as an employee or subcontractor of a licensed or certified appraiser to perform a significant amount of the appraisal (or the entire appraisal if he or she is qualified to do so), as long as the appraisal report is signed by a licensed or certified supervisory or review appraiser and is acceptable under state law. A supervisory appraiser or any appraiser signing on the left-hand side of the appraisal report as the “Appraiser” must have performed the level of inspection of the subject property required by the assignment. This does not require the supervisory appraiser to inspect the subject property in all instances. See B4-1.1-03, Appraiser Selection (04/01/2009), for the information about the selection and the definition of an appraiser.

Supervisory Appraiser

If a supervisory appraiser is used, the supervisory appraiser must certify that he or she

- directly supervises the appraiser who prepared the appraisal report,
- has reviewed the appraisal report,
- agrees with the statements and conclusions of the appraiser,
- agrees to be bound by some of the same certifications that the appraiser made, and
- takes full responsibility for the appraisal report.

Review Appraisers

If an appraiser performs a review function other than as a supervisory appraiser, the appraiser must prepare a separate review report, attach it to the appraisal report being reviewed, and provide a well-documented report that demonstrates the analysis and supports the reviewer’s opinions and conclusions.

If the review appraiser determines that the value opinion expressed in the appraisal report is unreasonable, the review appraiser must develop and report his or her own opinion of value, as of the effective date of the original appraisal.

Related Announcements

The table below provides references to the Announcements that have been released that are related to this topic.

Announcement	Issue Date
Announcement 09–19	June 8, 2009

Announcement 08–30

November 14, 2008

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.1, General Appraisal Requirements/ B4-1.1-05, Field Reviews (04/01/2009)



B4-1.1-05, Field Reviews (04/01/2009)

Introduction

This topic contains information on field reviews, including

- Quality Assurance of Appraisal Field Reviews
- Fannie Mae's Examination of Independent Appraisal Field Review Reports
- Refusal to Accept Appraisals From Specific Appraisers

Quality Assurance of Appraisal Field Reviews

Fannie Mae recommends that lenders use one of the following appraisal field review report forms for the appraisal component of its quality control reviews (see Part D, Ensuring Quality Control (QC)), however lenders may use other forms they consider appropriate.

- For one-unit properties, One-Unit Residential Appraisal Field Review Report (Form 2000).
- For two- to four-unit properties, Two- to Four-Unit Residential Appraisal Field Review Report (Form 2000A).

Fannie Mae's Examination of Independent Appraisal Field Review Reports

Fannie Mae performs independent appraisal field review reports. Based on the review, Fannie Mae may refer unacceptable appraisal reports to state appraiser licensing or regulatory boards for investigation and action considered appropriate.

In such cases, Fannie Mae provides the state board with a copy of the appraisal field review report and the original appraisal report.

Fannie Mae's objectives in referring appraisal reports to state appraiser licensing or regulatory boards are:

- to emphasize continuing efforts to maintain the quality of appraisals,
- to protect Fannie Mae's interest,
- to improve the quality of mortgages delivered to Fannie Mae by identifying appraisers who have performed appraisals of a sufficiently poor quality as to impair the security interests,
- to help the industry enhance the quality of appraisals by identifying and referring individual appraisers who appear to be unethical and/or incompetent to the state appraiser licensing or

regulatory boards for review, and,

- to help enforce professional standards.

Note: Fannie Mae's decision to make such referrals does not affect the lender's responsibility for managing the property valuation and appraisal review process.

Refusal to Accept Appraisals From Specific Appraisers

Fannie Mae may refuse to accept appraisals prepared by specific appraisers, or Fannie Mae may notify a lender that appraisals prepared by a given appraiser are no longer accepted.

When a lender is notified that appraisals from specific appraisers are no longer accepted, Fannie Mae allows the lender a certain amount of time to clear its mortgage pipeline. After that, the lender is prohibited from submitting mortgages to Fannie Mae secured by properties appraised by that individual.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.2, Appraisal Document Standards, Report, and Property Inspections/ B4-1.2-01, Age of Appraisal or Age of Property Inspection (04/01/2009)



B4-1.2-01, Age of Appraisal or Age of Property Inspection (04/01/2009)

Introduction

This topic contains information on the age of appraisal and the age of the property inspection.

- Age of Appraisal or Age of Property Inspection
- Updating the Original Appraisal Report
- Updating the Original Appraisal Report or Property Inspection
- Completing an Appraisal Update

Age of Appraisal or Age of Property Inspection

Properties must be appraised or inspected (if that is the level of property fieldwork recommended for a loan casefile underwritten through DU) within the 12 months that precede the date of the note and mortgage.

When...	Then ...
appraisal reports are more than four months old on the date of the note and mortgage—regardless of whether the property was appraised as proposed or existing construction	appraisers must perform an update which includes: <ul style="list-style-type: none"> • inspect the exterior of the property and • review of current market data to determine whether the property has declined in value since the date of the original appraisal.
a property inspection report for a loan casefile	appraisers must prepare a new DU Property

underwritten with DU mortgage is more than four months old on the date of the note and mortgage,

Inspection Report (Form 2075).

Note: The inspection and the appraisal update must occur within the four months that precede the date of the note and mortgage.

Updating the Original Appraisal Report

The following table details requirements for determining appraisal update requirements:

If ...	Then ...
the appraiser indicates the property value has declined	the lender must obtain a new appraisal for the property.
the appraiser indicates the property has not declined in value,	the lender should request the appraiser to provide an update to the appraisal, based on the appraiser's exterior inspection of the property and knowledge of current market conditions. The inspection and the appraisal update must occur within the four months that precede the date of the note and mortgage.

Updating the Original Appraisal Report or Property Inspection

Updates can be reported in the following formats:

- Appraisal Update and/or Completion Report (Form 1004D),
- Uniform Residential Appraisal Report (Form 1004), or
- in a letter.

See B4-1.2-06, Appraisal Forms and Report Exhibits (10/30/2009), for more information.

Completing an Appraisal Update

The original appraiser should complete the appraisal update; however, lenders may use substitute appraisers.

When updates are completed by substitute appraisers, the substitute appraiser must review the original appraisal and express an opinion about whether the original appraiser's opinion of market value was reasonable on the date of the original appraisal report.

The lender must note in the file why the original appraiser was not used.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.2, Appraisal Document Standards, Report, and Property Inspections/ B4-1.2-02, Objective and Unbiased Appraisals (04/01/2009)



B4-1.2-02, Objective and Unbiased Appraisals (04/01/2009)

Introduction

This topic contains information on objective and unbiased appraisals.

- Requirements for Appraisers and Lenders
- Reporting Unfavorable Conditions

Requirements for Appraisers and Lenders

Fannie Mae expects all appraisers to observe the following requirements. Consequently, lenders must:

- ensure that appraisers consider all factors that have an effect on value and the development of the opinion of market value in the appraisal report is objective and unbiased.
- ensure that unsupported assumptions or interjections of personal opinions or perceptions about factors—whether or not the factors affect the use and value of the property—are not used.
- ensure that the appraiser has not based (either partially or completely) the analysis and/or opinion of market value on the race, color, religion, sex, handicap, familial status, or national origin, of either the prospective owners or occupants of the property being appraised or the present owners or occupants of the properties in the vicinity of that property.

Reporting Unfavorable Conditions

The lender must ensure that appraiser comments regarding unfavorable conditions—such as the existence of an adverse environmental or economic factor—also discuss how the condition affects the value and/or marketability of the property being appraised and explain how the condition was taken into consideration in the valuation process. In such cases, the appraiser's analysis must reflect and include comparable sales that are similarly affected, whenever possible.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.2, Appraisal Document Standards, Report, and Property Inspections/ B4-1.2-03, Definition of Market Value (04/01/2009)



B4-1.2-03, Definition of Market Value (04/01/2009)

Introduction

This topic contains information on definition of market value.

Fannie Mae's Definition of Market Value

Fannie Mae's definition of market value is intended to ensure that appraisals reflect an opinion of market value after adjustments for any special or creative financing or sales concessions have been made—such as seller contributions, interest rate buydowns, etc.

Lenders must ensure that appraisers certify that the following definition of market value was used:

Market value is the most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus.

Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- buyer and seller are typically motivated;
- both parties are well informed or well advised, and each acting in what he or she considers his or her own best interest;
- a reasonable time is allowed for exposure in the open market;
- payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Adjustments to the comparables must be made for special or creative financing or sales concessions. No adjustments are necessary for those costs that are normally paid by sellers as a result of tradition or law in a market area; these costs are readily identifiable since the seller pays these costs in virtually all sales transactions. Special or creative financing adjustments can be made to the comparable property by comparisons to financing terms offered by a third-party institutional lender that is not already involved in the property or transaction.

Any adjustment should not be calculated on a dollar for dollar cost of the financing or concession but the dollar amount of any adjustment should approximate the market's reaction to the financing or concessions based on the appraiser's judgment.

This definition provides consistent interpretation for the appraiser. Specifically, Fannie Mae wants to emphasize that the phrases "...those costs that are normally paid by sellers as a result of tradition or law in a market area; these costs are readily identifiable since the seller pays these costs in virtually all sales transactions" refer to all of the sellers in a specific market area.

No distinction is made between a specific group of sellers, builders, developers, or individuals in the resale market—they all are considered to be individual sellers in the market.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.2, Appraisal Document Standards, Report, and Property Inspections/ B4-1.2-04, Postponed Improvements for New and Existing Construction (10/30/2009)



B4-1.2-04, Postponed Improvements for New and Existing Construction (10/30/2009)

Introduction

This topic contains information on postponed improvements for new and existing construction, including:

- Postponed Improvements for New or Proposed Construction
- Requirements for Existing Construction

Postponed Improvements for New or Proposed Construction

Generally, improvements for the subject property must be complete when the mortgage is delivered to Fannie Mae. The table below describes requirements related to new or proposed construction properties that are not complete when the mortgage is delivered to Fannie Mae.

Requirement for New or Proposed Construction
The appraisal may be based on either plans and specifications or an existing model home. A certification of completion must be obtained before the mortgage loan is delivered to Fannie Mae.
The certification of completion must <ul style="list-style-type: none"> • be completed by the appraiser, • state that the improvements were completed in accordance with the requirements and conditions in the original appraisal report, and • be accompanied by photographs of the completed improvements.
Mortgages may be delivered before postponed items are complete if the lender represents and warrants that the postponed improvements will be complete within 180 days of the date of the mortgage note. Acceptable postponed items include items that: <ul style="list-style-type: none"> • are part of the sales contract (third-party contracts are not permissible), • are postponed for a valid reason, such as inclement weather or a shortage of building materials, and • do not affect the ability to obtain an occupancy permit.
The cost of completing improvements must not represent more than 10% of the "as completed" appraised value of the property.
Lenders must establish a completion escrow for the postponed improvements, by withholding from the purchase proceeds funds equal to 120% of the estimated cost for completing the improvements. However, if the contractor or builder offers a guaranteed fixed-price contract for completion of the improvements, the funds in the completion escrow only need to equal the full amount of the contract price.
Lenders and borrowers must execute an escrow agreement that states how the escrow account will be managed and how funds from the escrow account will be disbursed.
The mortgage insurance and title insurance may not be adversely affected during or after the time the completion escrow is in effect.
Once a certificate of completion is obtained, lender must release the final draw from the escrow account, which should include any funds in excess of the amount needed to pay for completion of the postponed items.
Lenders must obtain a final title report, which must not show any outstanding mechanic's liens, take any exceptions to the postponed improvements, or take any exceptions to the escrow agreement. If the final title report is issued before the completion of the improvements, lenders must obtain an endorsement to the title policy that ensures the priority of Fannie Mae's lien.

Requirements for Existing Construction

The tables below provide requirements related to existing properties that have physical deficiencies, minor conditions, or deferred maintenance items that may or may not affect the livability of the property.

Requirements for Existing Construction When There are Minor Conditions or Deferred Maintenance Items that Do Not Affect the Livability, Soundness, or Structural Integrity of the Property
Lenders must review the appraisal to ensure that the property does not have minor conditions or deferred maintenance items that affect livability, soundness, or structural integrity of the subject property.
If the appraiser reports the existence of minor conditions or deferred maintenance items that do not affect the livability, soundness, or structural integrity of the property, the appraiser may complete the appraisal "as is" and these items must be reflected in the appraiser's opinion of value. Minor conditions and deferred maintenance items include, but are not limited to, worn floor finishes or carpet, minor plumbing leaks, holes in window screens, or cracked window glass and are typically due to normal wear and tear. The lender is not required to ensure that the borrower has had this work completed prior to delivery of the loan to Fannie Mae.
If there are minor conditions or deferred maintenance items to be remedied or completed after closing, the lender may escrow for these items at their own discretion and still deliver the loan to Fannie Mae prior to the release of the escrow as long as the lender can ensure that these items do not affect the livability, soundness, or structural integrity of the property.

Requirements for Existing Construction When There are Incomplete Items or Conditions that Do Affect the Livability, Soundness, or Structural Integrity of the Property
When there are incomplete items or conditions that do affect the livability, soundness, or structural integrity of the property, the property must be appraised subject to completion of the specific alterations or repairs. These items can include a partially completed addition or renovation, or physical deficiencies that could affect the soundness or structural integrity of the improvements, including but not limited to, cracks or settlement in the foundation, water seepage, active roof leaks, curled or cupped roof shingles, or inadequate electrical service or plumbing fixtures. In such cases, the lender must obtain a certificate of completion from the appraiser before the mortgage is delivered to Fannie Mae. Although the original appraiser should complete any required certification of completion, the lender may use a substitute appraiser.
See B4-1.2-01, Age of Appraisal or Age of Property Inspection (04/01/2009), for certifications completed by substitute appraisers.
The certification does not need to include photographs of the property unless those that accompanied the original appraisal report are no longer representative of the completed property.

Related Announcements

The table below provides references to the Announcements that have been released that are related to this topic.

Announcement	Issue Date
Announcement 08-30	November 14, 2008

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.2, Appraisal Document

Standards, Report, and Property Inspections/ B4-1.2-05, Requirements for the Appraisal Report (04/01/2009)



B4-1.2-05, Requirements for the Appraisal Report (04/01/2009)

Introduction

This topic contains information on requirements for the appraisal report.

Lender Requirements for Review of the Appraisal Report

The table below provides lender requirements for review of appraisal reports.

✓	Requirement
	<p>Lenders are responsible for</p> <ul style="list-style-type: none"> • the accuracy of the information • the integrity of the documents, and • ensuring that the appraisal is complete and prepared in accordance with Fannie Mae appraisal guidelines.
	<p>Lenders must ensure that appraisal reports are completed on Fannie Mae's forms (see B4-1.2-06, Appraisal Forms and Report Exhibits (10/30/2009)).</p>
	<p>Lenders must ensure that the appraisal report reflects a thorough investigation and analysis of the market value and provides the rationale for the appraiser's opinion of the market value.</p>
	<p>Electronically transmitted appraisal reports are acceptable provided lenders meet all required appraisal representations and warranties and the appraisal report</p> <ul style="list-style-type: none"> • adequately identifies the appraiser • is created by the appraiser identified on the appraisal report • includes a reproduced signature of the appraiser whose name appears on the report, and • upon delivery to Fannie Mae, is the unaltered report submitted by the identified appraiser.
	<p>Lenders must upgrade to an interior and exterior appraisal inspection if an exterior-only inspection does not provide sufficient information about the property to perform the inspection.</p> <p>For example, if the following conditions exist, the appraisal must be upgraded:</p> <ul style="list-style-type: none"> • the appraiser cannot adequately view the property from the street, • apparent adverse physical deficiencies or environmental conditions are observed, • the appraiser needs additional information about the physical conditions of the property.
	<p>Lenders must retrieve and reproduce complete and clear copies of appraisal reports at any time in response to a request from Fannie Mae.</p>

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4,

Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.2, Appraisal Document Standards, Report, and Property Inspections/ B4-1.2-06, Appraisal Forms and Report Exhibits (10/30/2009)



B4-1.2-06, Appraisal Forms and Report Exhibits (10/30/2009)

Introduction

This topic contains information on appraisal forms and report exhibits.

- List of Appraisal Forms
- Manually Underwritten Loans
- Exhibits for Appraisals with Interior and Exterior Property Inspections
- Exhibits for Appraisals with Exterior-Only Property Inspections
- Desktop Underwriter Property Inspection Report (Form 2075)
- Desktop Underwriter Appraisals Based on Exterior-Only Property Inspections

List of Appraisal Forms

Appraisers must use the most recent version of the appraisal forms and include any other data—either as an attachment or addendum to the appraisal report form—needed to adequately support the opinion of market value.

The following list provides Fannie Mae's appraisal forms (see Single-Family Forms for a complete list):

Form	Purpose
Uniform Residential Appraisal Report (Form 1004)	For appraisals of one-unit properties and units in PUDs (including those that have an illegal second unit or accessory apartment) based on interior and exterior property inspections. Form 1004 also may be used for two-unit properties, if each of the units is occupied by one of the co-borrowers as his or her principal residence or if the value of the legal second unit is relatively insignificant in relation to the total value of the property (as might be the case for a basement unit or a unit over a garage). In addition, appraisals for units in condo projects that consist solely of detached dwellings may be documented on Form 1004, if the appraiser includes an adequate description of the project and information about the homeowners' association fees and the quality of the project maintenance.
Exterior-Only Inspection Residential Appraisal Report (Form 2055)	For appraisals of one-unit properties and units in PUDs based on exterior-only property inspections.
Manufactured Home Appraisal Report (Form 1004C)	For appraisals of one-unit manufactured homes (including manufactured homes in a PUD, condo, or co-op project) based on interior and exterior property inspections.

Individual Condo Unit Appraisal Report (Form 1073)	For appraisals of one-unit properties in condo projects based on interior and exterior property inspections.
Exterior-Only Inspection Individual Condo Unit Appraisal Report (Form 1075)	For appraisals of one-unit properties in condo projects based on exterior-only property inspections.
Individual Cooperative Interest Appraisal Report (Form 2090)	For appraisals of one-unit properties in co-op projects based on interior and exterior property inspections
Exterior-Only Inspection Individual Cooperative Interest Appraisal Report (Form 2095)	For appraisals of one-unit properties in co-op projects based on exterior-only property inspections.
Small Residential Income Property Appraisal Report (Form 1025)	For appraisals of two- to four-unit properties (including two- to four-unit properties in PUD, condo, or co-op projects) based on interior and exterior property inspections.
Appraisal Update and/or Completion Report (Form 1004D)	For appraisal updates and/or completion reports for all one- to four-unit appraisal reports.
Market Conditions Addendum (Form 1004MC)	Required for all mortgage loans delivered to Fannie Mae with appraisals of one- to four-unit properties. Form 1004MC is intended to provide the lender with a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood. The form provides the appraiser with a structured format to report the data and to more easily identify current market trends and conditions. There are several shaded areas in the form to recognize that all the requested data may not be available from the data sources used by the appraiser and therefore the information may not be provided. The lack of completion of these areas is acceptable as long as the appraiser provides an explanation as to why these sections of the form are not complete. However, if the data is available, the appraiser must include the data in the analysis.

Manually Underwritten Loans

All manually underwritten mortgage loans sold to Fannie Mae require an appraisal based on an interior and exterior property inspection and must be completed on the appropriate form depending on the property type, unless the specific product guidelines permit a less than full appraisal.

Exhibits for Appraisals with Interior and Exterior Property Inspections

The following exhibits must accompany appraisals with interior and exterior property inspections:

- An exterior building sketch that indicates the dimensions

If the floor plan is atypical or functionally obsolete, thus limiting the market appeal for the property in comparison to competitive properties in the neighborhood, Fannie Mae requires a floor plan sketch.

- Calculations demonstrating how the estimate for gross living area is derived

For a unit in a condo or co-op project, the sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions (dimensions and estimates for gross living area shown on the plat are acceptable)

- A street map that shows the location of the subject property and of all comparables that the appraiser used.
- Clear, descriptive, original photographs showing the front, back, and a street scene of the subject property and the front of each comparable sale. The subject and all comparables must be appropriately identified. Photographs of comparable rentals and listings are not required.

Acceptable photographs include clear, descriptive, original images from photographs or electronic images, copies of photographs from a multiple listing service, or copies from the appraiser's files

- Operating Income Statement (Form 216) or a similar cash flow and operating income statement — Required for investment property, including a two- to four-unit property in which the applicant will occupy one unit as a principal residence.

Note: The form may be prepared by the applicant or the appraiser.

- When the applicant prepares Form 216, the appraiser's comments on the reasonableness of the projected operating income must be included on the form.
- When the appraiser prepares Form 216, the lender must ensure that the appraiser has operating statements; expense statements related to mortgage insurance premiums, homeowners' association dues, leasehold payments, or subordinate financing payments; and any other pertinent information related to the property.
- Single-Family Comparable Rent Schedule (Form 1007), if the property is a one-unit investment property.
- Any other data—as an attachment or addendum to the appraisal report form—that are necessary to provide an adequately supported opinion of market value.

Exhibits for Appraisals with Exterior-Only Property Inspections

The following exhibit is required for appraisals with exterior-only property inspections:

Street map that shows the location of both the subject property and the comparable sales and a photograph that shows the front scene of the subject property.

Note: When appraisals based on exterior-only inspections are used in connection with a one-unit investment property, Form 1007 must accompany the appraisal.

Desktop Underwriter Property Inspection Report (Form 2075)

The Desktop Underwriter Property Inspection Report (Form 2075), is not an appraisal report. It is a property inspection report that requires an exterior-only inspection of the subject property, completed by a state-licensed or -certified appraiser, which includes comments on:

- zoning regulations,

- other properties in the neighborhood,
- highest and best use of the property as improved,
- any apparent adverse physical deficiencies or environmental conditions, etc.

Lenders must obtain an appraisal of the property if the property inspection reveals

- apparent adverse physical deficiencies or conditions,
- apparent adverse environmental conditions, or
- the subject property does not conform to the neighborhood.

Note: When DU recommends Form 2075, lenders are not responsible for the traditional warranties regarding the valuation of the property. However, lenders are responsible for determining the acceptability of Form 2075 for a particular property.

Desktop Underwriter Appraisals Based on Exterior-Only Property Inspections

When DU recommends an appraisal with an exterior-only inspection, lenders must ensure that appraisers:

- provide descriptions of the physical characteristics of the property based on reliable data sources for the property and location
- use the same type of data sources used for comparable sales

Note: Lenders are required to obtain an appraisal with an interior and exterior inspection if:

- the property does not conform to the neighborhood,
- adverse physical deficiencies or environmental conditions are observed, or
- data sources do not provide sufficient information about the property to perform the appraisal.

Related Announcements

The table below provides references to the Announcements that have been released that are related to this topic.

Announcement	Issue Date
Announcement 08–30	November 14, 2008

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.2, Appraisal Document Standards, Report, and Property Inspections/ B4-1.2-07, Certifications and Statements of Assumptions and Limiting Conditions (04/01/2009)



B4-1.2-07, Certifications and Statements of Assumptions and Limiting Conditions (04/01/2009)

Introduction

This topic contains information on certifications and statements of assumptions and limiting conditions.

- Alterations to Appraiser Certifications and Limiting Conditions
- Lender Responsibilities Associated with Additional Certifications

Alterations to Appraiser Certifications and Limiting Conditions

Each Fannie Mae appraisal (or property inspection) report forms includes an appraiser's certification (and, if applicable, a supervisory appraiser's certification) and a statement of assumptions and limiting conditions.

The lender must ensure that the appraiser does not make changes or deletions to the appraiser's certifications.

Appraisers may make additional certifications on a separate page or form.

Acceptable additional certifications might include

- those required by state law,
- those related to the appraiser's continuing education or membership in an appraisal organization, or
- those related to the appraiser's compliance with privacy laws and regulations in the development, reporting, and storage of an appraisal and the information on which it is based.

Appraisers may not add limiting conditions.

Lender Responsibilities Associated with Additional Certifications

Lenders are responsible for reviewing any additional certifications made by appraisers to ensure that they do not conflict with Fannie Mae's policies or standard certifications on Fannie Mae appraisal forms.

The appraiser's certification #23 is an acknowledgment by the appraiser that certain parties to a mortgage finance transaction that are not the lender/client and/or intended user often rely on the appraisal report. This certification clarifies that such other parties include the borrower, another lender at the request of the borrower, the mortgagee or its successors and assigns, mortgage insurers, government-sponsored enterprises, and other secondary market participants.

Fannie Mae will accept the following additional notice or statement when appraisers believe the lender/client is the only intended user:

"The intended user of this appraisal report is the lender/client. The intended use is to evaluate the property that is the subject of this appraisal for a mortgage finance transaction, subject to the stated scope of work, purpose of the appraisal, reporting requirements of this appraisal report form, and definition of market

value. No additional intended users are identified by the appraiser.”

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.3, Special Appraisal Considerations/ B4-1.3-01, Special Appraisal Considerations for Properties Affected by Environmental Hazards (04/01/2009)



B4-1.3-01, Special Appraisal Considerations for Properties Affected by Environmental Hazards (04/01/2009)

Introduction

This topic contains information on special appraisal considerations for properties affected by environmental hazards, including:

- Disclosure Regarding Environmental Hazards
- Environmental Hazards: Eligible Properties
- Environmental Hazards: Ineligible Properties
- Well Water and Hazardous Waste
- Other Hazards

Disclosure Regarding Environmental Hazards

If real estate brokers, property sellers, property purchasers, or any other parties to the mortgage transaction inform the lender that an environmental hazard exists in the property, on the property, or in the vicinity of the property, then the lender must disclose the information to the appraiser and note the individual mortgage file accordingly.

Fannie Mae also requires lenders to disclose such information to the borrower, and to comply with any state or local environmental laws regarding disclosure.

Environmental Hazards: Eligible Properties

Fannie Mae purchases or securitizes mortgage loans secured by properties affected by environmental hazards if:

- the effect of the hazard is measurable through an analysis of comparable market data as of the effective date of the appraisal, and
- the appraiser reflects in the appraisal report any adverse effect that the hazard has on the value and marketability of the subject property or indicates that the comparable market data reveals no buyer resistance to the hazard.

Environmental Hazards: Ineligible Properties

In rare situations, a particular environmental hazard may have a significant effect on the value of the

subject property, although the actual effect is not measurable because the hazard is so serious or so recently discovered that an appraiser cannot arrive at a reliable opinion of market value because there is no comparable market data; such as sales, contract sales, or active listings available to reflect the effect of the hazard.

In such cases, the mortgage will not be eligible for delivery to Fannie Mae.

Well Water and Hazardous Waste

When the lender has reason to believe that private well water that is on or available to a property might be contaminated as the result of the proximity of the well to hazardous waste sites, the lender must obtain a well certification to determine whether the water meets community standards.

Other Hazards

When the appraiser has knowledge of any hazardous condition (whether it exists in or on the subject property or on any site within the vicinity of the property)—such as the presence of hazardous wastes, toxic substances, asbestos-containing materials, urea-formaldehyde insulation, radon gas, etc.—the appraiser must:

- note the hazardous condition in the appraisal report
- comment on any influence the hazard has on the property's value and marketability (if it is measurable through an analysis of comparable market data as of the effective date of the appraisal), and
- make appropriate adjustments in the overall analysis of the property's value.

Note: Fannie Mae does not consider the appraiser to be an expert in the field of environmental hazards. The typical residential real estate appraiser is neither expected nor required to be an expert in this specialized field. However, the appraiser has a responsibility to note in the appraisal report any adverse conditions that were observed during the inspection of the subject property or information that he or she became aware of through the normal research involved in performing an appraisal.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.3, Special Appraisal Considerations/ B4-1.3-02, Special Appraisal Considerations for Factory-Built Housing (04/01/2009)



B4-1.3-02, Special Appraisal Considerations for Factory-Built Housing (04/01/2009)

Introduction

This topic contains information on special appraisal considerations for factory-built housing.

Overview

Factory-built housing includes manufactured homes, modular homes, and other types of prefabricated housing.

Fannie Mae purchases mortgages secured by factory-built housing that:

- is designed as a one-family dwelling,
- assumes the characteristics of site-built housing,
- is legally classified as real property,
- is permanently affixed to a foundation system that is appropriate for the soil conditions of the site, and
- is designed to meet local and state codes.

For appraisal requirements concerning manufactured housing, see Section B5-2.4, Manufactured Housing.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.3, Special Appraisal Considerations/ B4-1.3-03, Special Appraisal Considerations for Modular, Prefabricated, Panelized, or Sectional Housing (04/01/2009)



B4-1.3-03, Special Appraisal Considerations for Modular, Prefabricated, Panelized, or Sectional Housing (04/01/2009)

Introduction

This topic contains information on special appraisal considerations for modular, prefabricated, panelized, or sectional housing.

- Acceptable Modular Homes
- Appraisal Requirements for Modular Homes
- Acceptable Prefabricated, Panelized, or Sectional Housing
- Appraisal Requirements for Prefabricated, Panelized, or Sectional Housing

Acceptable Modular Homes

Fannie Mae purchases loans secured by modular homes built in accordance with the Uniform Building Code administered by state agencies responsible for adopting and administering building code requirements for the state in which the modular home is installed.

Fannie Mae does not have minimum requirements for width, size, roof pitch, or any other specific construction detail for modular homes. Each such home must have sufficient square footage and room dimensions to be acceptable to typical purchasers in the subject market area.

Appraisal Requirements for Modular Homes

The appraiser must be familiar with the features that affect the quality of the home and must include this

information in the appraisal if necessary to support his or her opinion of value.

The appraisal must address both the marketability and comparability of modular homes.

The appraiser must include the most appropriate comparable sales to support the opinion of value for the subject property.

The process of selecting comparable sales for factory-built housing is generally the same as that for selecting comparable sales for site-built housing. When the subject property is modular, prefabricated, panelized, or sectional housing, Fannie Mae does not require that one or more of the comparable sales be the same type of factory-built housing, although using comparable sales of similar types of homes generally enhances the reliability of the appraiser's opinion of value.

Acceptable Prefabricated, Panelized, or Sectional Housing

Fannie Mae purchases loans secured by prefabricated, panelized, or sectional housing. These properties do not have to satisfy HUD's Federal Manufactured Home Construction and Safety Standards or the Uniform Building Codes that are adopted and administered by the state in which the home is installed.

Fannie Mae does not have minimum requirements for width, size, roof pitch, or any other specific construction detail for prefabricated, panelized, or sectional housing. Each such home must have sufficient square footage and room dimensions to be acceptable to typical purchasers in the subject market area.

Appraisal Requirements for Prefabricated, Panelized, or Sectional Housing

The appraiser must be familiar with the features that affect the quality of the home and must include this information in the appraisal if necessary to support his or her opinion of value.

The appraisal must address both the marketability and comparability of prefabricated, panelized, or sectional homes.

The appraiser must include the most appropriate comparable sales to support the opinion of value for the subject property.

The process of selecting comparable sales for factory-built housing is generally the same as that for selecting comparable sales for site-built housing. When the subject property is modular, prefabricated, panelized, or sectional housing, Fannie Mae does not require that one or more of the comparable sales be the same type of factory-built housing, although using comparable sales of similar types of homes generally enhances the reliability of the appraiser's opinion of value.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.3, Special Appraisal Considerations/ B4-1.3-04, Special Appraisal Considerations for Mixed-Use Properties (04/01/2009)



B4-1.3-04, Special Appraisal Considerations for Mixed-Use Properties (04/01/2009)

Introduction

This topic contains information on special appraisal considerations for mixed-use properties.

- Fannie Mae Acceptance of Mixed-Use Properties
- Appraisal Requirements for Mixed-Use Properties

Fannie Mae Acceptance of Mixed-Use Properties

Fannie Mae purchases or securitizes mortgage loans secured by properties that have a business use in addition to their residential use provided special eligibility criteria are met. Examples include, but are not limited to, properties with space set aside for day care facilities, beauty or barber shops, doctor's offices, and small neighborhood groceries or specialty stores.

Lenders must make sure that the mixed-use criteria are considered and adequately addressed in the assessment of the property.

For eligibility criteria, see B2-3-01, Occupancy Type Requirements (10/30/2009).

Appraisal Requirements for Mixed-Use Properties

The table below describes lender requirements pertaining to appraisals for mixed-use properties.

✓	Lenders must ensure that ...
	Appraisers provide an adequate description of the mixed-use characteristics of the subject property.
	The mixed use of the property represents a legal, permissible use of the property under the local zoning requirements.
	The market value of the property is primarily a function of its residential characteristics, rather than of the business use or any special business-use modifications that were made.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.3, Special Appraisal Considerations/ B4-1.3-05, Special Appraisal Considerations for Properties in Special Assessment Districts (04/01/2009)



B4-1.3-05, Special Appraisal Considerations for Properties in Special Assessment Districts (04/01/2009)

Introduction

This topic contains information on special appraisal considerations for properties in special assessment districts.

- Lender Appraisal Responsibilities Related to Special Assessment or Community Facilities Districts
- Evaluating Properties in Special Assessment or Community Facilities Districts
- Lender Requirements Pertaining to Community Facilities Districts

Lender Appraisal Responsibilities Related to Special Assessment or Community

Facilities Districts

A community facilities district is a district in which a special tax is created to fund a wide variety of public improvements, as well as the ongoing operation and maintenance costs of a limited number of public services.

Lenders must:

- know whether a property is located in a special assessment district or a community facilities district and the effect this has on the marketability of the subject property,
- be aware of the effect that assessments levied by the district could have on property values, and
- ensure that appraisers give special consideration to the valuation of properties located in these districts.

Evaluating Properties in Special Assessment or Community Facilities Districts

The table below provides conditional considerations when evaluating properties in special assessment or community facilities districts.

If ...	Then ...
the property being appraised is located in a special assessment district,	lenders must require appraisers to report on any special assessments that affect the property.
If the special assessment district is experiencing financial difficulty and that difficulty has an effect on the value or marketability of the subject property,	lenders must ensure that appraisers <ul style="list-style-type: none"> • reflect the difficulty in the analysis and • note the difficulty and impact in the appraisal report. • reflect market reaction to the potential liabilities that may arise within a financially troubled special assessment districts • consider the following within the district <ul style="list-style-type: none"> ○ current and expired listings of properties for sale ○ pending contract sales, and ○ recent closed sales
If financial difficulty of a special assessment district is so severe that its actual effect on the value and marketability of a property is not measurable because there are no comparable market data available to enable the appraiser to arrive at a reliable opinion of market value	the mortgage secured by such property will not be eligible for delivery to Fannie Mae until an active market develops enabling the appraiser to demonstrate the value and marketability of the subject property.

Lender Requirements Pertaining to Community Facilities Districts

The table below lists lender requirements pertaining to community facilities districts.

✓	Requirement

	lender originating mortgages in community facilities districts must disclose to the appraiser any information that it becomes aware of regarding special assessments on a given property.
	lender must caution appraisers about the need to be aware of whether the subject property and the comparable sales are located within or affected by a community facilities district. Note: Properties subject to an assessment by one of these districts often compete against properties that are either subject to a significantly different special assessment or to no assessment at all.
	lender must ensure that appraisers <ul style="list-style-type: none"> • consider the reaction of the market, if any, to the assessment for the applicable community facilities district by analyzing similarly affected comparable sales, and • note the effect of the assessment in the appraisal report.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.3, Special Appraisal Considerations/ B4-1.3-06, Special Appraisal Considerations for Properties Subject to Leasehold Interests (04/01/2009)



B4-1.3-06, Special Appraisal Considerations for Properties Subject to Leasehold Interests (04/01/2009)

Introduction

This topic contains information on special appraisal considerations for properties subject to leasehold interests.

Appraisal Requirements Pertaining to Leasehold Interests

The table below lists appraiser requirements for leasehold interest properties.

✓	Requirements
	appraisers must develop a thorough, clear, and detailed narrative that identifies the terms, restrictions, and conditions regarding lease agreements or ground leases: Appraisers must include this information as an addendum to the appraisal report.
	appraisers must discuss the effect, if any, the lease agreement or ground lease has on the value and marketability of the subject property.
	the appraiser's sales comparison approach to value must use comparable property sales that have similar leasehold interests.
	when there are sufficient numbers of closed comparable property sales with similar leasehold interests available, the appraiser should: <ul style="list-style-type: none"> • use the property sales in the analysis of market value of the leasehold estate for the subject property, and • report the property sales in the "sales comparison analysis" grid on the applicable appraisal report form.

if comparable sales with the same lease terms and restrictions are not available, appraisers may use sales of similar properties with different lease terms or, if necessary, sales of similar properties that were appraised as fee simple estates.

Appraisers must explain why the use of these sales is appropriate, and make appropriate adjustments on the "sales comparison analysis" grid to reflect the market reaction to the different lease terms or property rights appraised.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.3, Special Appraisal Considerations/ B4-1.3-07, Special Appraisal Considerations for Units in Co-op Projects (04/01/2009)



B4-1.3-07, Special Appraisal Considerations for Units in Co-op Projects (04/01/2009)

Introduction

This topic contains information on special appraisal considerations for units in co-op projects.

- Co-op Corporation
- Co-op Interest
- Determining the Value of the Co-op Interest
- Appraisal Requirements for Co-op Share Loans

Co-op Corporation

A co-op corporation holds title to a co-op project and grants occupancy rights to particular apartments or units to shareholders through proprietary leases or similar arrangements.

Co-op Interest

The co-op interest is the co-op shares or other evidence of an ownership interest in the co-op corporation and the accompanying occupancy rights; excluding the co-op interest's *pro rata* share of the debt service of the blanket mortgage.

In other words, the co-op interest is the equity portion that is over and above the *pro rata* share of the blanket mortgage(s).

Determining the Value of the Co-op Interest

Appraisers must develop an opinion of the market value of the co-op interest when evaluating co-op units.

To determine the value of the co-op interest, appraisers must consider and report, among other things, the information listed below.

- the number of shares attributable to the unit
- the number of shares issued and outstanding for the co-op corporation;
- the name of the lienholder, the lien position, and the amount and repayment terms of all project blanket financing;
- the *pro rata* share of the blanket mortgage payments that are attributable to the unit, as determined by dividing the number of shares attributable to the unit by the total number of project shares;
- the *pro rata* share of each lien that is attributable to the unit;
- any tax abatements or exemptions that are attributable to the unit;
- the remaining term for any tax abatements or exemptions and provisions for escalation of real estate taxes, which is the dollar amount by which the taxes will increase and the year in which the increase will occur;
- any monthly maintenance fees, including
 - utility charges, if they are part of these fees,
 - monthly special assessments,
 - ground rent,
 - other fees for the use of the facilities that are attributable to the unit, and
 - the fee type, amount, and term (if applicable) of those other fees.

This information can be developed through Request for Cooperative Project Information (Form 1074), if the management agent, co-op board, or project sponsor/developer uses the form to respond to lender or appraiser inquiries for project information.

When Form 1074 is used, appraisers may either transcribe the appropriate information to the applicable appraisal report or attach the form to the report as an addendum.

Appraisal Requirements for Co-op Share Loans

The table below provides requirements lenders must fulfill upon review of appraisals for co-op share loans.

✓	Lenders must ensure that appraisers meet the following requirements
	Appraisers must use reliable sources to obtain data on the co-op project, the individual subject unit, and the comparable properties. Appraisers must indicate the name of each source in the appraisal report or in an addendum to the appraisal report.
	Appraisers must address factors that could result in an increase to the monthly debt service for the subject unit.

	For comparison purposes, appraisers should indicate in the “sales comparison analysis” adjustment grid the dollar amount of the monthly assessments for each of the comparable sales.
	Appraisers must report the value of the co-op interest, excluding its <i>pro rata</i> share of the blanket mortgage(s). Note: This value reflects the market value for the co-op interest of the unit. For example, when the indicated value of the unit encumbered by the blanket mortgage(s) is \$100,000 and its <i>pro rata</i> share of the blanket mortgage(s) is \$25,000, the value estimate that the appraiser should report for the co-op interest of the unit is \$75,000.
	Appraisers must certify in the appraisal report that the <i>pro rata</i> share of the blanket mortgage(s) on the real estate has not been included in the opinion of the market value of the co-op interest.
	Appraisers must comment on the acceptance of housing co-ops in the market area. The degree of acceptance generally is reflected in the availability of similar comparable sales data for co-op units. If there is limited market acceptance of the co-op form of ownership, or if co-op forms of ownership are relatively new in the market area, appraisers must address any effect that has on the marketability and value of the unit that is being appraised.
	Appraisers must compare the subject unit to the general market area and other units in the subject co-op project. Note: This comparison should help demonstrate market acceptance of co-op units in the area. If submission of more than three required comparable sales is appropriate to support the market value opinion, appraisers must submit other comparable sales—including contracts for sale—as additional supporting data.
	Comparable sales must be from similar types of projects—townhouses, mid-rise, high-rise, etc.—that have similar common amenities and recreational facilities.
	Appraisers should use sales of co-op units as comparables. However, appraisers may use condo units as comparables sales if co-op unit sales are not available, provided the appraiser explains why those types of comparables were used.
	Appraisers must adjust the condo comparables to reflect the reaction of the market to the co-op unit when there is a preference for condo ownership in the subject market area.
	If the subject property is a unit in a new or recently converted co-op project, appraisers should select as comparables <ul style="list-style-type: none"> ● one closed or settled sale from the subject project (if one is available) and ● two closed or settled sales from outside of the project.
	If closed or settled sales are not available in the subject project, appraisers must use comparable sales from competing projects.
	When the subject property is a unit in an established co-op project—one that has resale activity—appraisers should use the following as comparables:

- two closed or settled sales from within the subject project (if available), and
- one closed or settled sale from a competing project.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.3, Special Appraisal Considerations/ B4-1.3-08, Special DU Property Fieldwork Requirements for Foreclosure and REO Properties (10/30/2009)



B4-1.3-08, Special DU Property Fieldwork Requirements for Foreclosure and REO Properties (10/30/2009)

Introduction

This topic contains information on DU property fieldwork requirements for previously foreclosed and REO properties.

Special DU Property Fieldwork Requirements for Foreclosure and REO Properties

Property foreclosures result in some REO properties being neglected or sitting vacant for an extended period of time before they are sold to new homeowners. In these cases an exterior-only property inspection or appraisal may not provide the most accurate assessment of the condition of the property.

For properties underwritten through DU, lenders must obtain an appraisal based on an interior and exterior property inspection for purchase transactions when the transaction is the result of the sale of an REO property, or the last transaction on the property being purchased was a foreclosure.

Related Announcements

The table below provides references to the Announcements and Release Notes that have been released that are related to this topic.

Announcements and Release Notes	Issue Date
DU 7.1 December Update	October 16, 2008

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.4, Appraisal Report Assessment/ B4-1.4-01, Reviewing the Appraisal Report (04/01/2009)



B4-1.4-01, Reviewing the Appraisal Report (04/01/2009)

Introduction

This topic contains information on reviewing the appraisal report.

- Mandatory Appraisal Report Analysis
- Lender Responsibilities Pertaining to Appraisal Report Review

Mandatory Appraisal Report Analysis

The lender must perform an underwriting analysis of the

- current contract for sale for purchase money transactions,
- current offering or listing for sale for both purchase and refinance transactions,
- comparable sales for both purchase and refinance transactions,
- current ownership for the subject property, and
- when the information is reasonably available, the sale or transfer history of the subject property and of comparable sales for both purchase and refinance transactions.

Lender Responsibilities Pertaining to Appraisal Report Review

When a new appraisal is required for a mortgage that a lender delivers to Fannie Mae, the lender must perform an underwriting analysis of:

- the appraisal report to ensure that the report is of professional quality and is prepared in a way that is consistent with Fannie Mae appraisal standards;
- the property based on the appraisal;
- the property's acceptability as security for the mortgage requested in view of its value and marketability;
- the current contract for sale for the subject property for purchase money transaction;
- the current offering or listing for sale for the subject property for both purchase and refinancing transactions, if applicable;
- the current ownership for the subject property for both purchase and refinance transactions;
- the sale or transfer history of the subject property, and comparable sales for both purchase and refinance transactions;
- the sale(s) of the subject property and the sale price trend in relation to the appraiser's opinion of value to confirm that they are reasonable and representative of the market.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.4, Appraisal Report Assessment/ B4-1.4-02, Appraisal Report Review: Urban Properties (04/01/2009)



B4-1.4-02, Appraisal Report Review: Urban Properties (04/01/2009)

Introduction

This topic contains information on special appraisal considerations for urban properties.

- Appraisal Considerations for Urban Properties
- Appraisal Requirements for Urban Properties

Appraisal Considerations for Urban Properties

Block-by-block underwriting and appraisal analysis is acceptable in cases in which rehabilitation has started in the block in which the subject property is located (or in facing blocks that are visible to the property), but has not yet spread to the rest of the neighborhood.

This enables appraisers and lenders to place weight on the positive influences of the rehabilitation efforts.

Appraisal Requirements for Urban Properties

The table below describes lender requirements pertaining to appraisals for urban properties

✓	Lenders must ensure that ...
	appraisers demonstrate that local market conditions make block-by-block analysis appropriate.
	appraisers analyze and use comparable sales of not only less similar properties from the subject neighborhood but also from competing neighborhoods if there is a lack of comparable sales in the neighborhood—either because of the level of rehabilitation or the relatively low number of sales transactions.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.4, Appraisal Report Assessment/ B4-1.4-03, Appraisal Report Review: Property Location (04/01/2009)



B4-1.4-03, Appraisal Report Review: Property Location (04/01/2009)

Introduction

This topic contains information on appraisal report review: property location.

- Property Location
- Adjoining Properties
- Properties with Outbuildings

Property Location

Fannie Mae will purchase or securitize mortgages that are secured by residential properties in urban, suburban, or rural areas.

To be eligible for purchase or securitization, mortgage loans must be secured by properties that are

residential in nature—based on the characteristics of the subject property, zoning, and the present land use.

Fannie Mae does not purchase or securitize mortgages on the following property types:

- agricultural-type properties such as farms, orchards, or ranches,
- undeveloped land,
- land development-type properties,
- properties that are not suitable for year-round occupancy regardless of location, and

Note: Certain aspects of the location of a property will require special consideration. For example, properties in resort areas that attract people for seasonal or vacation use are acceptable only if they are suitable for year-round use.

- properties that are not readily accessible by roads that meet local standards

Adjoining Properties

Appraisers must consider present or anticipated uses of adjoining properties that may adversely affect the value or marketability of the subject property.

Properties with Outbuildings

Properties with outbuildings require special consideration in the underwriting and appraisal review.

Type of Outbuilding	Acceptability
Minimal outbuildings—such as small barns or stables—that are of relatively insignificant value in relation to the total appraised value of the subject property.	The property is acceptable provided the outbuildings are typical of other residential properties in the subject area.
A small barn or stable.	The appraiser must demonstrate that the improvements are typical of properties for which an active, viable residential market exists, and must present similar improvements in comparable sales.
An atypical minimal outbuilding.	The property is acceptable provided the appraiser's analysis reflects little or no contributory value for it.
Significant outbuildings, such as silos, large barns, storage areas, or facilities for farm-type animals.	The presence of the outbuildings may indicate that the property is agricultural in nature. The lender must determine whether the improvements are residential or agricultural in nature, regardless of whether the appraiser assigns value to the outbuildings.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.4, Appraisal Report Assessment/ B4-1.4-04, Appraisal Report Review: Trend of Neighborhood Property Values, Demand/Supply, and Marketing Time (10/30/2009)



B4-1.4-04, Appraisal Report Review: Trend of Neighborhood Property Values, Demand/Supply, and Marketing Time (10/30/2009)

Introduction

This topic contains information on trend of neighborhood property values, demand/supply, and marketing time, including:

- Overview
- Market Conditions Addendum to the Appraisal Report (Form 1004MC)
- Assessment of Market Conditions

Overview

The appraiser must report the primary indicators of market condition for properties in the subject neighborhood as of the effective date of the appraisal by noting:

Trend of Property Values	Supply of Properties in the Subject Neighborhood	Marketing Time for Properties
<ul style="list-style-type: none"> • increasing, • stable, or • declining. 	<ul style="list-style-type: none"> • shortage, • in-balance, or • over-supply. 	<ul style="list-style-type: none"> • under three months, • three to six months, or • over six months.

Note: The appraiser must provide their conclusions for the reasons a market is experiencing declining property values, an over-supply of properties, or marketing times over six months.

The appraiser's analysis of a property must take into consideration all factors that affect value. Because Fannie Mae purchases mortgages in all markets, this is particularly important for market areas that are experiencing significant fluctuations in property values including sub-markets for particular types of housing within the market area.

Market Conditions Addendum to the Appraisal Report (Form 1004MC)

Form 1004MC is required for all mortgage loans delivered to Fannie Mae with appraisals of one- to four-unit properties. It is intended to provide the lender with a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood. For additional information concerning Form 1004MC, see B4-1.2-06, Appraisal Forms and Report Exhibits (10/30/2009).

Assessment of Market Conditions

If the lender determines the property is located within a declining market, the lender must ensure that current market conditions are identified and analyzed in the valuation process and described in the appraisal report.

Related Announcements

The table below provides references to the Announcements that have been released that are related to this

topic.

Announcement	Issue Date
Announcement 09–19	June 8, 2009
Announcement 08–30	November 14, 2008

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.4, Appraisal Report Assessment/ B4-1.4-05, Appraisal Report Review: Site Analysis Parameters (10/30/2009)



B4-1.4-05, Appraisal Report Review: Site Analysis Parameters (10/30/2009)

Introduction

This topic contains information on Appraisal Report Review: Site Analysis Parameters, including:

- Site Analysis Parameters
- Evaluating the Subject Property Site

Site Analysis Parameters

The subject property site should generally conform to and be acceptable in the market area in terms of size, shape, and topography.

The appraisal must include the actual size of the site and not a hypothetical portion of the site for the subject property.

Example:

The appraiser may not appraise only 5 acres of an unsubdivided 40–acre parcel. The appraised value must reflect the entire 40–acre parcel.

In addition, the property must have comparable utilities, street improvements, adequate vehicular access, and other amenities.

Note: Subject property amenities, easements, and encroachments must be reflected in the appraisal analysis and evaluation since they can either detract from or enhance the marketability of a site.

Evaluating the Subject Property Site

If the site has adverse or atypical conditions for the neighborhood, the appraisal must provide comments on the conditions.

If there is market resistance to a property because its site is not compatible with the neighborhood or with the requirements of the competitive market, lenders are expected to underwrite the mortgage loan more carefully and, if appropriate, impose more conservative mortgage terms.

Related Announcements

The table below provides references to the Announcements that have been released that are related to this topic.

Announcement	Issue Date
Announcement 08–30	November 14, 2008

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.4, Appraisal Report Assessment/ B4-1.4-06, Appraisal Report Review: Subject Property Zoning (04/01/2009)



B4-1.4-06, Appraisal Report Review: Subject Property Zoning (04/01/2009)

Introduction

This topic contains information on Appraisal Report Review: Subject Property Zoning.

- Subject Property Zoning
- Permissible Use of Land
- Highest and Best Use

Subject Property Zoning

Lenders must ensure that the specific zoning class has been reported in the appraisal, along with a general statement as to what the zoning permits.

The appraisal must include a statement that the subject property presents a legal, confirming; legal, non-conforming (grandfathered) use; or an illegal use under the zoning regulations; or whether there is no local zoning.

Permissible Use of Land

Fannie Mae does not purchase or securitize mortgage loans on properties if the improvements do not constitute a legally permissible use of the land.

Certain exceptions to this policy are made provided the property is appraised and underwritten in accordance with the special requirements imposed as a condition to agreeing to make the exception:

Property Type	Loan Eligible for Purchase or Securitization by Fannie Mae?
A property that is subject to certain land-use regulations, such as coastal tideland or wetland laws that create setback lines or other provisions that prevent the reconstruction or maintenance of the property improvements if they are damaged or	No.

destroyed.	
A property that represents a legal, but non-conforming, use of the land and the appraisal analysis reflects any adverse effect that the non-conforming use has on the value and marketability of the property.	Yes, if the mortgage is secured by a one- to four-unit property or a unit in a PUD project.
A property where the improvements from a project that represents a legal, but non-conforming, use of the land only can be rebuilt to current density in the event of partial or full destruction.	Yes, Fannie Mae will purchase or securitize a condo unit mortgage or co-op share loan, provided the mortgage file includes either a copy of the applicable zoning regulations or a letter from the local zoning authority that authorizes reconstruction to current density.
A one- or two-unit property that includes an illegal additional unit or accessory apartment (sometimes referred to as a mother-in-law, mother-daughter, or granny unit).	Yes, provided that: <ul style="list-style-type: none"> • The illegal use conforms to the subject neighborhood and to the market. • The property is appraised based upon its current use. • The borrower qualifies for the mortgage without considering any rental income from the illegal unit. • The appraisal must report that the improvements represent an illegal use. • The appraisal report must demonstrate that the improvements are typical for the market through an analysis of at least three comparable properties that have the same illegal use. • The lender ensures that the existence of the illegal additional unit will not jeopardize any future hazard insurance claim that might need to be filed for the property.
A three- to four-unit property that includes an illegal accessory apartment.	No.

Highest and Best Use

If the current improvements clearly do not represent the highest and best use of the site as an improved site, the appraiser must so indicate on the appraisal report. Fannie Mae will not purchase or securitize a mortgage that does not represent the highest and best use of the site.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.4, Appraisal Report Assessment/ B4-1.4-07, Appraisal Report Review: Site Utilities (04/01/2009)



B4-1.4-07, Appraisal Report Review: Site Utilities (04/01/2009)

Introduction

This topic contains information on Appraisal Report Review: Site Utilities.

- Site Utilities

Site Utilities

For mortgage loans to be eligible for purchase or securitization, the utilities of the property must meet community standards, be adequate, be in service, and be accepted by area residents.

If public sewer and/or water facilities—those that are supplied and regulated by the local government—are not available, community or private well and septic facilities must be available and utilized by the subject property. The owners of the subject property must have the right to access those facilities, which must be viable on an ongoing basis.

Generally, private well or septic facilities must be located on the subject site. However, if inhabitants of the subject property have the right to access off-site private facilities and there is an adequate, legally binding agreement for access and maintenance, then off-site private facilities are acceptable.

If there is market resistance to an area because of environmental hazards or any other conditions that affect well, septic, or public water facilities, the appraisal must address the effect of the hazards on the marketability and value of the subject property (see B4-1.3-01, Special Appraisal Considerations for Properties Affected by Environmental Hazards (04/01/2009)).

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.4, Appraisal Report Assessment/ B4-1.4-08, Appraisal Report Review: Off-Site Improvements (04/01/2009)



B4-1.4-08, Appraisal Report Review: Off-Site Improvements (04/01/2009)

Introduction

This topic contains information on Appraisal Report Review: Off-Site Improvements.

- Off-Site Improvements
- Evaluating Off-Site Improvements
- Community-Owned or Privately Maintained Streets

Off-Site Improvements

Off-site improvements include streets, alleys, sidewalks, curbs and gutters, street lights, etc.

The subject property should front on a publicly dedicated and maintained street that meets community standards and is generally accepted by area residents.

Evaluating Off-Site Improvements

If a property fronts on a street that is not typical of those found in the community, the appraiser must address the effect of that location on the marketability and value of the subject property.

The presence of sidewalks, curbs and gutters, street lights, and alleys depends on local custom—if they

are typical in the community, they should be present on the subject site.

Community-Owned or Privately Maintained Streets

If the property is located on a community-owned or privately-owned and maintained street, an adequate, legally enforceable agreement or covenant for maintenance of the street is required. The agreement or covenant should include the following provisions and be recorded in the land records of the appropriate jurisdiction:

- responsibility for payment of repairs, including each party's representative share,
- default remedies in the event a party to the agreement or covenant fails to comply with his or her obligations, and
- The effective term of the agreement or covenant, which in most cases should be perpetual and binding on any future owners.

Note: If the property is located within a state that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement or covenant is required.

If the property is not located in a state that imposes statutory requirements for maintenance, and either there is no agreement or covenant for maintenance of the street, or an agreement or covenant exists but does not meet the requirements listed above, the lender must indemnify Fannie Mae for any losses or expenses it may incur due to the physical condition of the street or in order to establish and/or retain access thereto.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.4, Appraisal Report Assessment/ B4-1.4-09, Appraisal Report Review: Special Flood Hazard Area (04/01/2009)



B4-1.4-09, Appraisal Report Review: Special Flood Hazard Area (04/01/2009)

Introduction

This topic contains information on special flood hazard areas.

Special Flood Hazard Areas

Fannie Mae's appraisal report forms provide an area for the appraiser to indicate whether the property is located in a Special Flood Hazard Area that is identified on the Federal Emergency Management Agency's (FEMA) Flood Insurance Rate Maps.

Flood insurance is required if any part of the principal structure is located in the following Special Flood Hazard Area zones: A, AE, AH, AO, AR, A1-30, A-99, V, VE, VO, or V1-30.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.4, Appraisal Report Assessment/ B4-1.4-10, Appraisal Report Review: Improvements Analysis Overview (04/01/2009)



B4-1.4-10, Appraisal Report Review: Improvements Analysis Overview (04/01/2009)

Introduction

This topic contains information on Appraisal Report Review: Improvements Analysis.

- Improvements Analysis Requirements
- Remaining Economic Life

Improvements Analysis Requirements

The appraisal must provide a clear, detailed, and accurate description of the improvements that is consistent with the level of fieldwork required in connection with the appraisal assignment. It must be as specific as possible, commenting on such things as needed repairs, additional features, modernization, etc., and should provide supporting addenda, if necessary. If the subject property has an accessory apartment, the appraisal should describe it.

Remaining Economic Life

Fannie Mae does not require the mortgage term to have any correlation to the remaining economic life of the property.

However, related property deficiencies must be discussed in the sections of the appraisal report that address the improvements analysis and comments on the condition of the property.

Fannie Mae's appraisal report forms are designed to meet the needs of several different user groups; consequently, the forms address the remaining economic life for the property being appraised, but appraisers are not required to report this.

If appraisers report this information, lenders do not need to consider remaining economic life because any related property deficiencies will be discussed in the sections of the appraisal report that address the improvements analysis and comments on the condition of the property.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.4, Appraisal Report Assessment/ B4-1.4-11, Appraisal Report Review: Conformity of Improvements to Neighborhood (04/01/2009)



B4-1.4-11, Appraisal Report Review: Conformity of Improvements to Neighborhood (04/01/2009)

Introduction

This topic contains information on conformity of improvements to the neighborhood.

Conformity to Neighborhood

Special consideration must be given to properties that represent special or unique housing for the subject neighborhood.

On a case-by-case basis, lenders must determine whether there is sufficient information to develop a reliable opinion of market value.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.4, Appraisal Report Assessment/ B4-1.4-12, Appraisal Report Review: Actual and Effective Ages of the Improvements (10/30/2009)



B4-1.4-12, Appraisal Report Review: Actual and Effective Ages of the Improvements (10/30/2009)

Introduction

This topic contains information on actual and effective ages of the improvements.

Age of Improvements

Fannie Mae does not place a restriction on the actual age of the dwelling. Older dwellings that meet Fannie Mae's general requirements are acceptable. Improvements for all properties must be of the quality and condition that will be acceptable to typical purchasers in the subject market area.

When adjustments are made to the appraisal for the effective age of the subject property, the appraiser must provide an explanation for the adjustments and the condition of the property.

Related Announcements

The table below provides references to the Announcements that have been released that are related to this topic.

Announcement	Issue Date
Announcement 08-30	November 14, 2008

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.4, Appraisal Report Assessment/ B4-1.4-13, Appraisal Report Review: Insulation and Energy Efficiency of the Improvements (04/01/2009)



B4-1.4-13, Appraisal Report Review: Insulation and Energy Efficiency of the Improvements (04/01/2009)

Introduction

This topic contains information on insulation and energy efficiency of the improvements.

Insulation and Energy Efficiency of the Improvements

An energy-efficient property is one that uses cost-effective design, materials, equipment, and site orientation to conserve nonrenewable fuels.

Special energy-saving items must be recognized in the appraisal process. The nature of these items and their contribution to value will vary throughout the country because of climactic conditions and differences in utility costs.

Appraisers must compare energy-efficient features of the subject property to those of comparable properties in the “sales comparison analysis” grid to ensure that the overall contribution of these items is reflected in the market value of the subject property.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.4, Appraisal Report Assessment/ B4-1.4-14, Appraisal Report Review: Layout, Floor Plans, and Gross Building and Living Areas (04/01/2009)



B4-1.4-14, Appraisal Report Review: Layout, Floor Plans, and Gross Building and Living Areas (04/01/2009)

Introduction

This topic contains information on layout, floor plans, and gross building and living areas.

- Overview
- Minimum Size
- Evaluating Above-Grade Room Count
- Below-Grade Areas
- Appropriate Above-Grade and Below-Grade Comparisons
- Gross Building Area

Overview

Dwellings with unusual layouts, peculiar floor plans, or inadequate equipment or amenities generally have limited market appeal.

A review of the room list and floor plan for the dwelling unit may indicate an unusual layout—such as bedrooms on a level with no bath, or a kitchen on a different level from the dining room.

The appraisal must include appropriate adjustments based on how the subject compares to the comparable sales.

Minimum Size

Fannie Mae does not specify minimum size or living area requirements for properties (with the exception of Manufactured Housing; see Section B5-2.4, Manufactured Housing).

Evaluating Above-Grade Room Count

The most common comparison for one-unit properties is the above-grade gross living area.

Appraisers must be consistent when calculating and reporting finished above-grade room count and square footage for the gross living area above-grade.

A level is considered below-grade if any portion of it is below-grade—regardless of the quality of its finish or the window area of any room. A walk-out basement with finished rooms would not be included in the above-grade room count.

For units in condo or co-op projects, the appraiser must use interior perimeter unit dimensions to calculate the gross living area. In all other instances, the appraiser must use the exterior building dimensions per floor to calculate the above-grade gross living area of a property.

The following must be observed when calculating and reporting above-grade room count and square footage for the gross living area:

- Only finished above-grade areas can be used in calculating and reporting of above-grade room count and square footage for the gross living area.
- Garages and basements, including those that are partially above-grade, must not be included in the above-grade room count.

Below-Grade Areas

Rooms that are not included in the above-grade room count may add substantially to the value of a property—particularly when the quality of the finish is high.

The appraiser must report the basement or other partially below-grade areas separately and make appropriate adjustments for them on the “basement and finished areas below-grade” line in the “sales comparison analysis” grid.

Appropriate Above-Grade and Below-Grade Comparisons

To ensure consistency in the sales comparison analysis, appraisers must compare above-grade areas to above-grade areas and below-grade areas to below-grade areas.

Appraisers may deviate from this approach if the style of the subject property or any of the comparables does not lend itself to such comparisons.

However, in such instances, the appraiser must explain the reason for the deviation and clearly describe the comparisons that were made.

Gross Building Area

Gross building area:

- is the total finished area including any interior common areas, such as stairways and hallways of the improvements based on exterior measurements.
- is the most common comparison for two- to four-unit properties.

- must be consistently developed for the subject property and all comparables used in the appraisal.
- must include all finished above-grade and below-grade living areas, counting all interior common areas such as stairways, hallways, storage rooms, etc.
- cannot count exterior common areas such as open stairways.

Fannie Mae will accept the use of other comparisons for two- to four-unit properties (such as the total above-grade and below-grade areas) provided the appraiser:

- explains the reasons he or she did not use a gross building area comparison, and
- clearly describes the comparisons that were made.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.4, Appraisal Report Assessment/ B4-1.4-15, Appraisal Report Review: Property Condition of the Improvements (04/01/2009)



B4-1.4-15, Appraisal Report Review: Property Condition of the Improvements (04/01/2009)

Introduction

This topic contains information on property condition of the improvements.

- Property Condition
- Infestation, Dampness, or Settlement
- As-Is Condition of the Subject Property
- Physical Deficiencies That Affect Soundness, Structural Integrity, and Livability of the Subject Property
- Property Condition Disclosure to Borrower

Property Condition

Lenders must take the necessary steps to ensure that a property meets Fannie Mae's condition requirements as outlined in this subsection.

The table below provides the requirements for property condition.

✓	Requirement
	Based on the factual data of the improvement analysis, the appraisal report must express an opinion about the condition of the improvements.

	Appraisals based on interior and exterior inspections must include complete visual inspections of the accessible areas of the property. Note: Appraisers are not responsible for hidden or unapparent conditions.
	Appraisal reports must reflect adverse conditions that were apparent during the inspection or discovered while performing research—such as, but not limited to, needed repairs, deterioration, or the presence of hazardous wastes, toxic substances, or adverse environmental conditions.
	Detrimental conditions of the improvements must be reported in the appraisal even if the conditions are typical for competing properties.
	The appraisal must consider and describe the overall quality and condition of the property.
	The appraisal must identify: <ul style="list-style-type: none"> • items that require immediate repair, and • items where maintenance may have been deferred, which may or may not require immediate repair.
	The appraisal comments section must address needed repairs and physical, functional, or external inadequacies.

Infestation, Dampness, or Settlement

If the appraisal indicates evidence of wood-boring insects, dampness, or settlement, the appraisal must comment on the effect on the marketability and the value of the subject property.

The lender must either provide satisfactory evidence that the condition was corrected or submit a professionally prepared report, indicating—based on an inspection of the property—that the condition does not pose any threat of structural damage to the improvements.

As-Is Condition of the Subject Property

Fannie Mae permits appraisals to be based on the as-is condition of the property provided existing conditions are minor and do not affect the livability, soundness, or structural integrity of the property, and the appraiser's opinion of value reflects the existence of these conditions.

Minor conditions and deferred maintenance are typically due to normal wear and tear from the aging process and the occupancy of the property.

Note: While such conditions generally do not rise to the level of a required repair, they must be reported.

Examples of minor conditions and deferred maintenance include worn floor finishes or carpet, minor plumbing leaks, holes in window screens, or cracked window glass.

Physical Deficiencies That Affect Soundness, Structural Integrity, and Livability of the Subject Property

The appraisal report must identify and describe physical deficiencies that could affect a property's soundness, structural integrity, or livability, or improvements that are incomplete. The property must be appraised subject to completion of the specific alterations or repairs.

If the appraiser is not qualified to evaluate the alterations or repairs needed, the appraisal must identify and

describe the deficiencies and the property must be appraised subject to a satisfactory inspection by a qualified professional. The appraisal may have to be revised based upon the results of the inspection. If so, the report must indicate the impact, if any, on the final opinion of value. The lender must review the revised appraisal report to ensure that no physical deficiencies or conditions that would affect the livability, soundness, or structural integrity of the property are indicated. The lender must ensure that material conditions are repaired before loan delivery.

If a property has incomplete improvements, the alterations or repairs must be performed. The lender must obtain a completion report from an appraiser before loan delivery.

Property Condition Disclosure to Borrower

The lender must disclose all known property condition issues to the borrower so that the borrower may take necessary actions to address such issues.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.4, Appraisal Report Assessment/ B4-1.4-16, Appraisal Report Review: Sales Comparison Approach(10/30/2009)



B4-1.4-16, Appraisal Report Review: Sales Comparison Approach(10/30/2009)

Introduction

This topic contains information on the sales comparison approach to value, including:

- Overview
- Current and Prior Listings of the Subject Property
- Three-Year Prior Sales History
- Sources of Comparable Market Data
- Selection of Comparable Sales
- General Requirements
- Rural Properties
- Properties in Established Subdivisions, Condos, or PUDs
- Properties in New or Recently Converted Subdivisions, Condos, or PUDs

Overview

Lenders must ensure that the appraisers they use analyze the following as part of the sales comparison approach:

- listings and contract sales,

- closed or settled sales, and
- the most recent and similar sales available.

Particular attention must be paid to sales or financing concessions in markets that are experiencing declining property values, an oversupply of properties, or marketing times over six months.

Current and Prior Listings of the Subject Property

Fannie Mae's appraisal report forms require the appraiser to research and comment on whether the subject property is currently for sale or if it has been listed for sale within 12 months prior to the effective date of the appraisal. The appraiser must report on each occurrence or listing and provide the data source (s), offering prices, and date(s).

Example:

If the subject property is currently listed for sale and was previously listed eight months ago, the appraiser must report on both offerings.

Three-Year Prior Sales History

The Uniform Standards of Professional Appraisal Practice (USPAP) requires appraisers to report a minimum three-year prior sales history for the subject property. The appraiser must comply with the minimum requirements of USPAP.

Sources of Comparable Market Data

Data and/or verification source(s) for each comparable sale must be reported on the appraisal report form.

Single or multiple sources for data and verifications are acceptable provided the appraiser adequately verifies the comparable sales.

When comparable sales data is provided by parties that have a financial interest in either the sale or financing of the subject property, the appraiser must verify the data with a party that does not have a financial interest in the subject transaction.

Selection of Comparable Sales

The appraiser must perform a neighborhood analysis in order to identify the area that is subject to the same influences as the property being appraised (based on the actions of typical buyers in the market area). The results of a neighborhood analysis enable the appraiser not only to identify the factors that influence the value of properties in the market area, but also to define the area from which to select the market data needed to perform a sales comparison analysis.

When appraising new construction, the appraiser may need to rely solely on the builder of the property he or she is appraising to provide comparable sales data in accordance with the requirements stated in Properties in New or Recently Converted Subdivisions, Condos, or PUDs, below, as this data may not yet be available through typical data sources, such as public records or multiple listing services. In this scenario, it is acceptable for the appraiser to verify the transaction of the comparable sale by viewing a copy of the HUD-1 Settlement Statement from the builder's file.

General Requirements

The table below provides general requirements for selecting comparable sales.

✓	Requirement
	Influences that may affect value based on market evidence—such as closed sales, contract sales, and offerings or listings of the most comparable properties for sale in the market area; market studies; etc.—must be researched, analyzed, and considered in the appraisal report.
	A minimum of three comparable sales must be reported as part of the sales comparison approach to value. More than three comparable sales may be submitted to support the opinion of market value provided at least three are actual settled or closed sales.
	It is preferable for the appraiser to provide comparables from the subject's neighborhood, however, Fannie Mae does allow for the use of comparable sales that are located in competing neighborhoods, as these may simply be the best comparables available and the most appropriate for the appraiser's analysis. If this situation arises, the appraiser must not expand the neighborhood boundaries just to encompass the comparables selected. The appraiser must indicate the comparables are from a competing neighborhood and address any differences that exist. The appraiser must also provide an explanation as to why he or she used the specific comparable sales in the appraisal report and include a discussion of how a competing neighborhood is comparable to the subject neighborhood.
	Comparable sales that have been settled or closed within the last 12 months should be used in the appraisal. Older comparable sales that are the best indicator of value for the subject property can be used if appropriate. Comparable sales that are more than six months old must be accompanied by an appraiser explanation for use. For example, if the subject property is located in a rural area that has minimal sales activity, the appraiser may not be able to locate three truly comparable sales that sold in the last 12 months. In this case, the appraiser may use older comparable sales as long as he or she explains why they are being used.
	The subject property can be used as a fourth comparable sale or as supporting data if it was previously sold and closed or settled.
	Contract offerings and current listings can be used as supporting data if appropriate.

Rural Properties

Rural properties often have large lot sizes and rural locations can be relatively undeveloped; therefore, there may be a shortage (or absence) of recent truly comparable sales in the immediate vicinity of a subject property that is in a rural location.

Comparable sales located a considerable distance from the subject property can be used if they represent the best indicator of value for the subject property.

The appraisal must include an explanation of why the particular comparables were selected.

Properties in Established Subdivisions, Condos, or PUDs

Comparable sales from within the same subdivision or project as the subject property must be used if the subdivision or project has resale activity.

Resale activity from within the subdivision or project is the best indicator of value for properties in that subdivision or project.

Note: Use of comparable properties located outside of the established subject neighborhood must be explained in the appraisal analysis.

Properties in New or Recently Converted Subdivisions, Condos, or PUDs

The subject property must be compared to other properties in its general market area as well as to properties within the subject subdivision or project.

The appraiser must select one comparable sale from the subject subdivision or project and one comparable sale from outside the subject subdivision or project. The third comparable sale can be from inside or outside of the subject subdivision or project, provided it is a good indicator of value for the subject property.

Note: Sales or resales from within the subject subdivision or project are preferable to sales from outside the subdivision or project provided the developer or builder of the subject property is not involved in the transactions.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement 08–30	November 14, 2008

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.4, Appraisal Report Assessment/ B4-1.4-17, Appraisal Report Review: Adjustments to Comparable Sales (04/01/2009)



B4-1.4-17, Appraisal Report Review: Adjustments to Comparable Sales (04/01/2009)

Introduction

This topic contains information on adjustments to comparable sales.

Net and Gross Percentage Adjustments

The following guidelines for net and gross percentage adjustments may be used as a general indicator of whether a property should be used as a comparable sale.

The amount of the gross adjustment is determined by adding the absolute value of all individual adjustments without regard to positive or negative adjustments.

The amount of the net adjustment is determined by adding all of the individual adjustments with consideration given to the positive or negative values.

Guideline	Conditional Considerations
The dollar amount of the net adjustments for each comparable sale should not exceed 15% of the sales price of the comparable.	When the adjustments exceed 15%, then the appraiser must comment on the reasons for not using a more similar comparable.
The dollar amount of the gross adjustments for each comparable sale should not exceed 25% of the sales price of the comparable.	When the adjustments exceed 25%, then the appraiser must comment on the reasons for not using a more similar comparable.
Individual adjustments that are higher than normal should be explained by the appraiser and carefully reviewed by the lender.	If comparables have higher-than-normal adjustments, then the adjustments must be justified in the appraisal report.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.4, Appraisal Report Assessment/ B4-1.4-18, Appraisal Report Review: Lender Review of the Adjustment Grid (10/30/2009)



B4-1.4-18, Appraisal Report Review: Lender Review of the Adjustment Grid (10/30/2009)

Introduction

This topic contains information on lender review of the adjustment grid, including:

- Lender Review of the Adjustment Grid
- Proximity to Subject Property and Location
- Sales Price
- Sales or Financing Concessions
- Date of Sale and Time Adjustments
- Above-Grade Room Count and Gross Living Area
- Over-Improvements

Lender Review of the Adjustment Grid

Lenders must thoroughly review the “sales comparison analysis” adjustment grid.

- Ensure that there are no calculation errors in the dollar adjustments.
- Scan the appraisal for substantial adjustments. They raise questions about the validity of using a

specific comparable sale.

- Ensure that substantial adjustments are addressed in the appraisal.

Proximity to Subject Property and Location

The description of the proximity of the comparable sale to the subject property must be specific (for example, “two blocks south”).

Whenever possible, comparable sales in the same neighborhood as the subject property should be used. Sales prices of comparable properties in the neighborhood should reflect the same positive and negative locational characteristics.

Sales Price

The sales price of each comparable sale should be within the general range of the appraiser’s opinion of market value for the subject property.

Sales or Financing Concessions

For in-depth discussion of sales or financing concessions, see B3-4.1-02, Interested Party Contributions (IPCs) (04/30/2010).

The table below describes lender evaluation requirements for sales or financing concessions.

✓	Evaluating Sales or Financing Concessions
	The dollar amount of sales or financing concessions paid by the seller must be reported for the comparable sales if the information is reasonably available.
	Appraisers must provide the sales and financing concession information that was available and verified for the comparable sales.
	<p>If information is not available because of legal restrictions or other disclosure-related problems, the appraiser must explain why the information is not available.</p> <p>Note: Fannie Mae will not accept an explanation that indicates that the appraiser did not make an effort to verify the information.</p> <p>If the appraisal report form does not provide enough space to discuss this information, the appraiser must make an adjustment for the concessions on the form and include an explanation in an addendum to the appraisal report.</p>
	When a quantitative sales comparison analysis is used, the amount of the negative dollar adjustment for each comparable with sales or financing concessions should be equal to any increase in the purchase price of the comparable that the appraiser determines to be attributable to the concessions.
	Adjustments based on dollar-for-dollar deductions that are equal to the cost of the concessions to the seller as a strict cash equivalency approach would dictate are not appropriate.
	Adjustments must reflect the difference between what the comparables actually sold for with the sales concessions and what they would have sold for without the concessions so that the dollar amount of the adjustments will approximate the reaction of the market to the concessions.

	<p>Positive adjustments for sales or financing concessions are not acceptable.</p> <p>For example, if local common practice or law results in virtually all of the property sellers in the market area paying a 1% loan origination fee for the purchaser, and a property seller in that market did not pay any loan fees or concessions for the purchaser, the sale would be considered as a cash equivalent sale in that market.</p>
	<p>The appraiser must recognize comparable sales that sold for all cash or with cash equivalent financing and use them as comparable sales if they are the best indicators of value for the subject property.</p> <p>Such sales also can be useful to the appraiser in determining those costs that are normally paid by sellers as the result of common practice or law in the market area.</p>

Sales or financing data for comparable sales are generally available. Sales or financing data should be obtained from parties associated with the comparable transaction, such as the broker, buyer or seller, or a reliable data source. The need to make negative dollar adjustments for sales and financing concessions and the amount of the adjustments to the comparable sales are not based on how typical the concessions might be for a segment of the market area; large sales concessions can be relatively typical in a particular segment of the market and still result in sale prices that reflect more than value of the real estate.

Date of Sale and Time Adjustments

For each comparable sale, the appraiser should provide the date of the sales contract and the settlement or closing date. Only the month and year of the sale need to be reported unless the exact date is necessary to understand the adjustments.

If both the contract date and settlement or closing date are not reported, the reported sale date must be identified as either the "contract date" or the "settlement or closing date."

If only the contract date is reported, the appraisal must indicate whether the contract resulted in a settlement or closing.

Time adjustments must reflect the difference in market conditions between the contract date of the comparable and the effective date of appraisal for the subject property. The adjustment may be either positive or negative.

Above-Grade Room Count and Gross Living Area

Only finished above-grade areas can be included in the calculation of the gross living area for a one-unit property or a unit in a condo or PUD project. Basements and other partially below-grade areas must be considered separately and the appraisal adjusted accordingly.

Room count and gross living area must be similar for the subject property and all comparable sales.

Large differences between the subject property and the comparable sales must be addressed since they raise doubts about the validity of the comparable sales as good indicators of value.

Over-Improvements

An over-improvement is an improvement that costs more than its contributory value within the marketplace.

The appraiser must comment on over-improvements and indicate their contributory value in the "sales

comparison analysis” adjustment grid.

Improvements can represent an over-improvement for the neighborhood, but still be within the neighborhood price range—such as a property with an in-ground swimming pool, a large addition, or an oversized garage in a market that does not demand these kinds of improvements.

Lenders must review appraisals on properties with over-improvements that may not be acceptable to the typical purchaser to ensure that only the contributory value of the over-improvement is reflected in the appraisal analysis.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement 09–19	June 8, 2009
Announcement 08–30	November 14, 2009

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.4, Appraisal Report Assessment/ B4-1.4-19, Appraisal Report Review: Cost Approach to Value (04/01/2009)



B4-1.4-19, Appraisal Report Review: Cost Approach to Value (04/01/2009)

Introduction

This topic contains information on the cost approach to value.

Evaluating Cost Approach to Value

The table below provides requirements for evaluating cost approach to value.

✓	Evaluating Cost Approach to Value
	Appraisals that rely solely on the cost approach as an indicator of market value are not acceptable.
	Fannie Mae does not require the cost approach to value except for the valuation of manufactured homes.
	<p>Lenders must ensure that appraiser analysis and comments for the cost approach to value are consistent with comments and adjustments mentioned elsewhere in the appraisal report.</p> <p>For example:</p> <ul style="list-style-type: none"> • If the neighborhood or site description reveals that the property backs up to a shopping center, lenders should expect to see an adjustment for external depreciation in the cost approach. • If the improvement analysis indicates that it is necessary to go through one bedroom

to get to another bedroom, lenders should expect to see an adjustment for functional depreciation.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.4, Appraisal Report Assessment/ B4-1.4-20, Appraisal Report Review: Income Approach to Value (04/01/2009)



B4-1.4-20, Appraisal Report Review: Income Approach to Value (04/01/2009)

Introduction

This topic contains information on the income approach to value.

Income Approach to Value

Fannie Mae does not accept appraisals that rely solely on the income approach to value as an indicator of market value.

When the income approach to value is used, the appraisal report must include the supporting comparable rental and sales data, and the calculations used to determine the gross rent multiplier.

The income approach to value is not appropriate in areas that consist mostly of owner-occupied properties since adequate rental data generally does not exist for those areas.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-1, Appraisal Guidelines/Section B4-1.4, Appraisal Report Assessment/ B4-1.4-21, Appraisal Report Review: Valuation Analysis and Final Reconciliation (04/01/2009)



B4-1.4-21, Appraisal Report Review: Valuation Analysis and Final Reconciliation (04/01/2009)

Introduction

This topic contains information on appraisal report review: valuation analysis and final reconciliation.

Valuation Analysis and Final Reconciliation

In the final reconciliation, appraisers must

- reconcile the reasonableness and reliability of each applicable approach to value
- reconcile the reasonableness and validity of the indicated values
- reconcile the reasonableness of available data, and
- select and report the approach or approaches that were given the most weight.

Note: The final reconciliation must never be an averaging technique.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-2, Project Standards/ Project Standards



Project Standards

Introduction

This chapter describes Fannie Mae project standards policies and requirements.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-2, Project Standards/Section B4-2.1, General Project Standards and Environmental Hazards / B4-2.1-01, General Information on Project Standards (12/30/2009)



B4-2.1-01, General Information on Project Standards (12/30/2009)

Introduction

This topic contains general information on project standards, including:

- Project Standards Overview
- General Warranty of Project Eligibility

Project Standards Overview

Fannie Mae purchases or securitizes mortgage loans secured by units in condos, planned unit developments (PUDs), or cooperative projects that meet Fannie Mae eligibility criteria.

Project Type	Project Review Methods
Condo	<ul style="list-style-type: none"> • Limited Review • Lender Full Review • Condo Project Manager™ (CPM™) Expedited Review • Fannie Mae Review: Project Eligibility Review Service (PERS) <p>For geographic-specific condo project review requirements see B4-2.2-12, Geographic-Specific Condo Project Considerations (12/30/2009).</p>
PUD	<p>Lender Full Review — Attached PUD projects.</p> <p>A project review is not required for detached PUD units.</p>
Co-op	<ul style="list-style-type: none"> • Lender Full Review • Fannie Mae review for projects with an unexpired final project acceptance
Condo, PUD, or Co-op Projects	Fannie Mae Review via PERS excluding PUD projects consisting of

Consisting of Manufactured Housing	multi-width manufactured homes. Single wide manufactured home projects require review.
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Sources for project information include, but are not limited to, appraisers, homeowners' associations, co-op corporations, management companies, real estate brokers, and project developers. Lenders are responsible for the accuracy of any information obtained from these sources.

Appraisers must provide accurate descriptions of projects and include any characteristics that may be an indication that the project is ineligible.

General Warranty of Project Eligibility

The table below details considerations for the lender warranty of project eligibility.

When ...	Then ...
<p>Lenders deliver mortgages secured by an individual unit in a project reviewed under:</p> <ul style="list-style-type: none"> the Limited Review process for established condo projects; the Lender Full Review process for condo projects; the Type E, Type F, or Type T PUD reviews or; the Type 1 co-op project type. 	<p>Lenders represent and warrant that</p> <ul style="list-style-type: none"> the project was reviewed within the three months that preceded the date of the note and mortgage for that unit to determine the project met the required eligibility criteria, and they are not aware of any changes in circumstances since the review of the project that would result in the project not satisfying Fannie Mae eligibility criteria. <p>The mortgage must be delivered to Fannie Mae within six months of the lender's review of the project.</p>
<p>Lenders deliver mortgages secured by an individual condo unit in a project that was reviewed under:</p> <ul style="list-style-type: none"> the Condo Project Manager (CPM) Expedited Review process, or the Fannie Mae Review process. 	<p>Lenders represent and warrant that</p> <ul style="list-style-type: none"> the project met all of the applicable eligibility requirements on the date of the note and mortgage for that unit; and they are not aware of any change in circumstances since the review of the project that would result in the project not satisfying Fannie Mae eligibility criteria.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcement	Issue Date
Announcement 09-37	December 30, 2009
Announcement 09-32	October 30, 2009
Announcement 08-34	December 16, 2008

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-2, Project Standards/Section B4-2.1, General Project Standards and Environmental Hazards / B4-2.1-02, Ineligible Projects (10/30/2009)



B4-2.1-02, Ineligible Projects (10/30/2009)

Introduction

This topic contains information on ineligible projects, including:

Ineligible Project Types

Fannie Mae will not purchase or securitize mortgages that are secured by units in certain types of PUD, condos, or cooperative projects, regardless of the characteristics of the unit mortgage.

Loans secured by units within the following types of projects are not eligible for purchase or securitization by Fannie Mae.

✓	Ineligible Project Types
	Projects that are managed and operated as a hotel or motel, even though the units are individually owned
	Projects that include registration services and offer rentals of units on a daily basis
	Projects with names that include the words "hotel" or "motel"
	Projects that restrict the owner's ability to occupy the unit
	Projects with mandatory rental pooling agreements that require unit owners to either rent their units or give a management firm control over the occupancy of the units. Note: These formal agreements between the developer, homeowners' association, and/or the individual unit owners, obligate the unit owner to rent the property on a seasonal, monthly, weekly, or daily basis. In many cases, the agreements include blackout dates, continuous occupancy limitations, and other such use restrictions. In return, the unit owner receives a share of the revenue generated from the rental of the unit.
	Projects with non-incident business operations owned or operated by the homeowners' association such as, but not limited to, a restaurant, a spa, a health club, etc.
	Investment securities (i.e., projects that have documents on file with the Securities and Exchange Commission, or projects where unit ownership is characterized or promoted as an investment opportunity)
	Common interest apartments or community apartment projects are projects or buildings that are owned by several owners as tenants-in-common or by a homeowners' association in which individuals have an undivided interest in a residential apartment building and land, and have the right of exclusive occupancy of a specific apartment in the building
	Timeshare or segmented ownership projects
	Houseboat projects
	New projects where the seller is offering sale/financing structures in excess of Fannie Mae's eligibility policies for individual mortgage loans. These excessive structures include, but are

	not limited to, builder/developer contributions, sales concessions, HOA or principal and interest payment abatements, and/or contributions not disclosed on the HUD-1 Settlement Statement.
	Projects where more than 20% of the total space is used for nonresidential purposes
	Projects where a single entity (the same individual, investor group, partnership, or corporation) owns more than 10% of the total units in the project
	Multi-dwelling unit condos or co-ops—projects that permit an owner to hold title (or stock ownership and the accompanying occupancy rights) to more than one dwelling unit, with ownership of all of his or her owned units (or shares) evidenced by a single deed and financed by a single mortgage (or share loan)
	Condo or co-op projects that represent a legal, but non-conforming, use of the land, if zoning regulations prohibit rebuilding the improvements to current density in the event of their partial or full destruction
	A tax-sheltered syndicate's leasing to a co-op or "leasing" co-ops—projects that involve the leasing of the land and the improvements to the co-op corporation, even if the co-op corporation owns part of the building
	Co-op projects that are subject to leasehold estates
	Limited equity co-ops—projects in which the co-op corporation places a limit on the amount of return that can be received when stock or shares are sold
	Co-op projects with units that are subject to resale restrictions or located on land owned by community land trusts
	Co-op projects in which the developer or sponsor has an ownership interest or other rights in the project real estate or facilities other than the interest or rights it has in relation to unsold units
	<p>Any project for which the homeowners' association or co-op corporation is named as a party to current litigation or, any project for which the project sponsor or developer is named as a party to current litigation that relates to the project, if the project has not been turned over to the association or corporation.</p> <p>Note: If the lender is aware of pending litigation, it must contact the applicable Fannie Mae Project Standards team (see E-1-03, List of Contacts (04/30/2010)) to determine whether Fannie Mae will accept delivery of mortgages secured by units in the project.</p> <p>Note: Projects where the homeowners' association or cooperative corporation is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past due homeowners' association dues, are not considered ineligible projects.</p>

Identification of Condo or Cooperative Hotels

Fannie Mae frequently receives questions on how to identify a condo or cooperative hotel. The lender must perform a careful analysis of the project to determine the project's eligibility. Lenders have several sources of information on which to rely. These include, but are not limited to, the appraisal, the contract for sale, and the Internet.

The selection of the appraiser is a key element in obtaining an accurate appraisal report. The appraiser is

expected to provide an accurate description of the project to include any characteristics that may be an indication that the project is ineligible. An appraiser who is not familiar with a specific real estate market may not have adequate information available to perform a reliable appraisal.

The appraisal report may identify project characteristics that do not definitively determine that the project is a condo or cooperative hotel; however the report may provide evidence that would require the lender to perform additional research. Such project characteristics include, but are not limited to:

- central telephone system,
- room service,
- units that do not contain full-sized kitchen appliances,
- daily cleaning service,
- advertising of rental rates,
- registration service,
- restrictions on interior decorating,
- franchise agreements
- central key systems,
- location of the project in a resort area,
- owner-occupancy density — the project may have few or even no owner occupants,
- projects converted from a hotel or motel, or
- interior doors that adjoin other units.

Lenders must thoroughly examine the appraisal and contract of sale to determine if there are guaranteed rent-backs, references to rental pooling or management agreements, and SEC filing references and/or prospectus documents.

The Internet has become a useful tool for obtaining project and unit-specific information. The applicable project's Web site may contain information on the project type, amenities, and the availability of units for rent.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement 08-34	December 16, 2008

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-2, Project Standards/Section B4-2.1, General Project Standards and Environmental Hazards / B4-2.1-03, Projects with Special Considerations and Project Eligibility Waivers (04/01/2009)



B4-2.1-03, Projects with Special Considerations and Project Eligibility Waivers (04/01/2009)

Introduction

This topic contains information on projects with special considerations and project eligibility waivers.

- Projects with Special Considerations
- Project Eligibility Waivers

Projects with Special Considerations

Lenders may identify projects that merit special consideration even though the characteristics do not satisfy Fannie Mae eligibility criteria.

In these instances, lenders can contact the Fannie Mae Project Standards team (see E-1-03, List of Contacts (04/30/2010)) to discuss the possibility of accepting such projects.

Exceptions to Fannie Mae eligibility and underwriting requirements are considered on a project-by-project basis.

Project Eligibility Waivers

The table below provides requirements for project eligibility waivers.

Fannie Mae charges a nonrefundable \$200 review fee for each waiver request. A higher review fee may be charged based on the complexity of the waiver review.

When ...	Then ...
lenders believe that a specific eligibility criterion should be waived for a particular project with respect to a single loan,	<ul style="list-style-type: none"> • the lender must enter the project into CPM before requesting a waiver through the Credit Variance Administration System (CVAS), • the lender must request a waiver from Fannie Mae through CVAS, and • Fannie Mae's Project Standards team (see E-1-03, List of Contacts (04/30/2010)) will determine if a single loan project eligibility waiver is warranted.
the project is to be reviewed under the Condo Project Manager (CPM) Expedited Review process,	<ul style="list-style-type: none"> • the lender must enter the project into CPM before requesting a waiver through CVAS, and • Fannie Mae's Project Standards team (see

E-1-03, List of Contacts (04/30/2010)) will determine if a single loan project eligibility waiver is warranted.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-2, Project Standards/Section B4-2.1, General Project Standards and Environmental Hazards / B4-2.1-04, Project Identification and Document Retention (04/01/2009)



B4-2.1-04, Project Identification and Document Retention (04/01/2009)

Introduction

This topic contains information on project identification and document retention.

Proper Project Identification and Documentation Retention

To ensure that a project is properly identified in Fannie Mae records and in the mortgage documents, lenders must designate the applicable project classification on the following forms:

- FRM/GEM Loan Schedule (Form 1068)
- ARM/GPARM Loan Schedule (Form 1069)
- Schedule of Mortgages (Form 2005)
- Uniform Underwriting and Transmittal Summary (Form 1008)

Note: The CPM Project ID number should be added to the Form 1008 when applicable.

Lenders must also retain any of the project documentation needed to support the warranty that the project meets Fannie Mae eligibility criteria.

This documentation must be retained, and made available upon request, as long as lenders originate mortgages from the project, and until all mortgages sold to Fannie Mae have been liquidated.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-2, Project Standards/Section B4-2.1, General Project Standards and Environmental Hazards / B4-2.1-05, Project Insurance Requirements (04/01/2009)



B4-2.1-05, Project Insurance Requirements (04/01/2009)

Introduction

This topic contains information on project insurance requirements.

- Project Insurance Requirements Overview

- Additional Fannie Mae Insurance Requirements

Project Insurance Requirements Overview

The table below provides requirements for delivery of mortgage or share loans secured by an individual unit in a condo or co-op project.

✓	Requirements
	Lenders must verify that the units in a project are covered by the appropriate hazard and flood insurance policies (see B7-3-05, Hazard Coverage for Units in Project Developments (10/30/2009), and B7-3-08, Flood Insurance Coverage Requirements (12/30/2009)).
	Lenders must verify that hazard and flood insurance are in force for a PUD project if the individual PUD unit will be covered under the project's blanket policy.

Additional Fannie Mae Insurance Requirements

In addition to hazard and flood insurance, in most cases, Fannie Mae requires liability, fidelity, and rent loss insurance for a project. See B7-4-01, Liability Insurance (04/01/2009), B7-4-02, Fidelity Insurance (10/30/2009), and B7-4-03, Rent Loss Insurance for Co-op Projects (04/01/2009).

All coverages must be in compliance with local, state, and federal insurance laws.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-2, Project Standards/Section B4-2.1, General Project Standards and Environmental Hazards / B4-2.1-06, Priority of Common Expense Assessments (04/01/2009)



B4-2.1-06, Priority of Common Expense Assessments (04/01/2009)

Introduction

This topic contains information on priority of common expense assessments.

Priority of Common Expense Assessments

The table below describes the priority of common expense assessments.

If ...	Then ...
<p>the condo or PUD project is located in a jurisdiction that has enacted:</p> <ul style="list-style-type: none"> • the Uniform Condo Act (UCA), • the Uniform Common Interest Ownership Act (UCIOA), or • other similar statutes that provide for regular common expense assessments, as reflected by the project's operating budget, to have such priority over first mortgage liens. 	<p>Fannie Mae allows up to six months of regular common expense assessments for a condo or PUD unit to have limited priority over Fannie Mae's mortgage lien.</p>

Fannie Mae subsequently acquires title to the unit by foreclosure,	Fannie Mae will not be liable for any fees or charges related to the collection of the six months of unpaid assessments that accrued before acquisition of title to the unit.
the condo or PUD project is located in a jurisdiction that allows for more than six months of regular common expense assessments to have priority over Fannie Mae's lien,	Fannie Mae will not purchase a mortgage loan secured by a unit in the project.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-2, Project Standards/Section B4-2.1, General Project Standards and Environmental Hazards / B4-2.1-07, Project Standards: Environmental Hazard Assessments (04/01/2009)



B4-2.1-07, Project Standards: Environmental Hazard Assessments (04/01/2009)

Introduction

This topic contains information on environmental hazard assessments.

- Overview
- Types of Environmental Hazard Assessments
- Acceptability of Consultants
- Phase I Environmental Assessment
- Phase II Environmental Assessment Description
- Who Should Complete the Phase II Environmental Assessment
- Phase II Environmental Assessment Report Forms and Requirements
- Kinds of Testing or Sampling Under Phase II Environmental Assessments

Overview

An environmental hazard assessment is required for condo and co-op projects if an environmental problem is identified by the lender through performance of its project underwriting or due diligence.

If environmental problems are identified, the problems must be determined to be acceptable.

Lenders should keep a copy of this assessment in file.

Types of Environmental Hazard Assessments

The table below describes two types of environmental hazard assessments:

Type	Performed by:	Description
Phase I assessment (see E-2-03, Suggested Format for Phase I Environmental Hazard Assessments (04/01/2009))	the lender or by someone employed by the lender	gathers information from various sources to evaluate the environmental soundness of the project.
Phase II assessment	a qualified environmental consultant	when required <ul style="list-style-type: none"> • Phase I assessment identifies problems or • Phase I assessment is inconclusive with regard to any particular hazard.

Acceptability of Consultants

Fannie Mae reserve the right to notify lenders that a particular consultant is no longer acceptable. Fannie Mae also reserves the right to refuse to accept, at any time, any future environmental assessment, report, warranty, or certification from individual consultants, specific consulting firms, or specific branch offices of consulting firms.

Phase I Environmental Assessment

A Phase I assessment enables lenders to quickly determine whether adequate information exists to evaluate the environmental status of a property.

A Phase I assessment is principally a screening process that focuses on reviewing the available documentation, interviewing people who are knowledgeable about the site operations, and inspecting the site, the building, and adjoining properties.

Fannie Mae does not require a specific form for a Phase I assessment.

Any report that is thorough and professionally prepared will be acceptable. For a suggested format, see E-2-03, Suggested Format for Phase I Environmental Hazard Assessments (04/01/2009).

Phase II Environmental Assessment Description

A Phase II assessment provides a more detailed review of the site. It includes specific physical sampling for each hazard that was not acceptable under the Phase I assessment, as well as a review of historical records. It determines the presence or absence of specific environmental liabilities (such as asbestos or leaking underground storage tanks) or quantifies the extent of an observed or suspected environmental liability (such as soil or groundwater contamination).

Who Should Complete the Phase II Environmental Assessment

The specialized nature of the investigations conducted under a Phase II assessment require the knowledge and experience of a qualified consultant.

Lenders must use care in choosing firms to perform environmental hazard assessments. Lenders should confirm that the consultant it plans to use is not affiliated with the buyer or seller of the property or a firm engaged in a business that might present a conflict of interest. Lenders should also evaluate whether the

consulting firm's personnel have adequate and appropriate education and training to carry out the required duties.

Phase II Environmental Assessment Report Forms and Requirements

Fannie Mae does not specify an exact format for the consultant's report.

Any report that is thorough and professionally prepared will be acceptable.

The table below provides the requirements for the Phase II Environmental Assessment Report.

✓	The consultant's report for a Phase II environmental assessment report must
	include a full description of the sampling procedures.
	include the laboratory results.
	include the consultant's recommendations.
	follow all regulatory standards and good management practices at all times, especially when physical sampling and laboratory analysis are involved.
	include a certification in the report that <ul style="list-style-type: none"> • the assessment was performed diligently and in accordance with all regulatory and good management standards, and • to the best of the consultant's knowledge, the results are complete and accurate.
	include the signature of an officer of the consulting firm that conducted the work.

Kinds of Testing or Sampling Under Phase II Environmental Assessments

Examples of the kind of testing or sampling that occur under a Phase II assessment include but are not limited to the following:

- investigating the status of any enforcement actions related to neighboring properties under the Superfund or Resource, Conservation, and Recovery Acts;
- testing for underground storage leaks;
- sampling and analyzing the soil;
- sampling and analyzing the groundwater;
- testing soil or facilities that are suspected as being contaminated by polychlorinated biphenyls; and
- sampling and analyzing bulk asbestos and developing related abatement and maintenance programs, if necessary.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-2, Project Standards/Section B4-2.1, General Project Standards and Environmental Hazards / B4-2.1-08, Unacceptable Environmental Conditions (04/01/2009)



B4-2.1-08, Unacceptable Environmental Conditions (04/01/2009)

Introduction

This topic contains information on unacceptable environmental conditions.

- Overview
- Unacceptable Environmental Conditions

Overview

The existence of one or more unacceptable environmental conditions generally will result in a project being ineligible. However, if the lender believes that the relative risk is minimal or can be managed, it may call the Fannie Mae Project Standards team (see E-1-03, List of Contacts (04/30/2010)).

Unacceptable Environmental Conditions

The table below provides examples of unacceptable environmental conditions.

✓	Examples of unacceptable environmental conditions include, but are not limited to, the following:
	a property that is (or has been) used as a landfill or other solid, hazardous, or municipal waste disposal site;
	a property that is (or has been) used for activity related to the storage of oil, hazardous waste, or other toxic substances—except that the property may have been used for the storage of small quantities of hazardous substances that are generally recognized as appropriate for residential uses and maintenance of the property;
	a property that is the subject of outstanding environmental or public health litigation or administrative action from private parties or public officials;
	a high-risk neighboring property that has evidence of hazardous waste spills or soil or groundwater contamination on or around its site;
	a property that has documented soil or groundwater contamination and/or a documented tank leak that is leaking at more than 0.05 gallons per hour (which is the National Fire Protection Association's standard);
	a property with soil sampling that has values for metal in excess of the following concentration limits in parts per million (ppm): <ul style="list-style-type: none"> • chromium: 100 ppm • arsenic: 20 ppm • zinc: 350 ppm • cadmium: 3 ppm • lead: 100 ppm • nickel: 100 ppm • copper: 170 ppm • selenium: 20 ppm;
	a property that is contaminated from polychlorinated biphenyls (PCBs);

	<p>a property with soil sampling that has values for other organic materials in excess of the following concentration limits in parts per million (ppm):</p> <ul style="list-style-type: none"> ● total volatile organics: 1 ppm ● total hydrocarbons: 100 ppm ● total petroleum hydrocarbons: 100 ppm
	<p>a property with groundwater sampling that has values for other organic materials in excess of the following concentration limits in parts per million:</p> <ul style="list-style-type: none"> ● total organics (volatiles and base neutrals): 0.10 ppm ● total petroleum hydrocarbons: 1.00 ppm;
	<p>a property with groundwater sampling that has values for metals in excess of the following concentration limits in parts per million:</p> <ul style="list-style-type: none"> ● arsenic: 0.05 ppm ● lead: 0.05 ppm ● boron: 1.00 ppm ● mercury: 0.002 ppm ● cadmium: 0.01 ppm ● selenium: 0.01 ppm ● chromium: 0.05 ppm ● silver: 0.05 ppm;
	<p>a property with high radon levels (e.g., above four picocuries per liter) that can be corrected only through large capital improvements and/or extensive ongoing maintenance programs that are beyond the financial or technical abilities of the homeowners' association or co-op corporation for the project;</p>
	<p>a property that has conditions representing material violations of applicable local, state, or federal environmental or public health statutes and laws; and</p>
	<p>a property that is contaminated by friable asbestos-containing materials.</p>

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-2, Project Standards/Section B4-2.1, General Project Standards and Environmental Hazards / B4-2.1-09, Remedial Actions for Environmental Assessments Below Standards (04/01/2009)



B4-2.1-09, Remedial Actions for Environmental Assessments Below Standards (04/01/2009)

Introduction

This topic contains information on remedial actions for environmental assessments below standards.

Remedial Actions for Environmental Assessments Below Standards

Properties that fail to meet a particular standard may be corrected through remedial actions and then retested.

Remedial actions must be undertaken with the advice and written endorsement of a qualified environmental consultant.

All remedial actions must be taken in accordance with all regulatory and good management standards.

Typically, lenders must confirm the completion and effectiveness of remedial actions based on the following conditions:

- A qualified environmental consultant states in writing that remedial work needed to make the property eligible under the environmental standards can be completed within 90 days.
- The project's developer or sponsor signs a contract with a qualified firm to perform the remedial work within 90 days.

The lender must warrant that the job has been satisfactorily completed and the property meets Fannie Mae's environmental eligibility standards.

The project developer or sponsor must provide a performance escrow equal to 150% of the gross contract amount to ensure the completion of the remedial work.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-2, Project Standards/Section B4-2.2, Condo Project Eligibility / B4-2.2-01, Condo Project Eligibility (12/30/2009)



B4-2.2-01, Condo Project Eligibility (12/30/2009)

Introduction

This topic contains information on condo project eligibility, including:

Condo Project Eligibility

The quality of mortgages secured by units in a condo project can be influenced by certain characteristics of the project as a whole. As a result, before Fannie Mae will purchase or securitize mortgages secured by individual units in a condo project, the project must be acceptable. The scope of the guidelines and the specific eligibility criteria are dependent upon whether the condo project reviewed is established or new and are summarized in the following table:

Project Type	Eligibility Criteria
Established project	<ul style="list-style-type: none"> • at least 90% of the total units in the project have been conveyed to the unit purchasers; • the project is 100% complete, including all units and common elements; • the project is not subject to additional phasing or annexation; and • control of the homeowners' association has been turned over to the unit owners.
New project	<ul style="list-style-type: none"> • fewer than 90% of the total units in the project have been conveyed to the unit purchasers; • the project is not fully completed, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a condo; • the project is newly converted; or • the project is subject to additional phasing or annexation.
Two- to four-unit project	Additional eligibility requirements apply for two- to four-unit projects:

	<ul style="list-style-type: none"> • No single entity (the same individual, investor group, partnership, or corporation) may own more than one unit within the project; • All units, common elements, and facilities within the project—including those that are owned by any master association—must be 100% complete; • All but one unit in the project must have been conveyed to owner-occupant principal residence or second home purchasers; and • The units in the project must be owned in fee simple or leasehold, and the unit owners must be the sole owners of, and have rights to the use of, the project's facilities, common elements, and limited common elements.
Manufactured home project	<p>Additional eligibility requirements apply for manufactured home projects.</p> <p>All condo projects consisting of manufactured homes must be submitted to Fannie Mae for review and acceptance, with the exception of multi-width manufactured homes that are part of a PUD project.</p>

Condo Project Type Codes

When a lender delivers a mortgage for purchase or securitization, it must provide the project type code. The following project type codes are used for condo projects:

Project Type Code	Description
P	Limited Review — New detached projects
Q	Limited Review — Established projects
R	CPM Expedited Review or Lender Full Review — New projects
S	CPM Expedited Review or Lender Full Review — Established projects
T	Fannie Mae Review — Projects consisting of manufactured housing, or any project with an unexpired Final or Conditional Final Project Acceptance status
U	FHA-Approved Project – Applicable to FHA loans only

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement 09-37	December 30, 2009
Announcement 08-34	December 16, 2008

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-2, Project Standards/Section B4-2.2, Condo Project Eligibility / B4-2.2-02, Limited Review Process for Attached Condo Units (04/01/2009)



B4-2.2-02, Limited Review Process for Attached Condo Units (04/01/2009)

Introduction

This topic contains information on the limited review process for attached condo units.

- Projects Eligible for Limited Review
- Mortgage Delivery Requirements

Projects Eligible for Limited Review

The Fannie Mae Limited Review process enables lenders to deliver individual loans secured by units in a project based on loan-level characteristics and DU recommendation, if applicable.

A project must meet the following requirements to be eligible for a Limited Review:

- The project must meet the warranty requirements of B4-2.2-04, Lender Full Review: General Eligibility Requirements for All Condo Projects(04/01/2009).
- The project is not an ineligible project in accordance with B4-2.1-02, Ineligible Projects (10/30/2009).
- The project does not consist of manufactured homes.
- The project must be an established project as described in B4-2.2-01, Condo Project Eligibility (12/30/2009).
- The project is covered by insurance in accordance with the types of insurance described in Subpart B7, Insurance.

The following are not eligible for a Limited Review:

- Mortgages secured by attached units in new condo projects, whether they are manually underwritten or submitted to DU.
- Mortgages secured by attached condo units that are investment properties.

The Limited Review process is intended to be used on a “spot loan” basis, meaning that lenders may originate loans that arise through the ordinary course of business. A lender may originate more than one loan in a particular project under the Limited Review process provided the project is an established project and meets the requirements for Limited Review.

However, if the lender has targeted the project with specific marketing efforts or is named as a preferred lender by either the developer or the project's home owner's association, the project is ineligible for Limited Review and the lender must use one of the other project review processes.

Limited Review eligibility criteria for attached units differ depending upon the occupancy status and whether a lender submits the loan through DU or chooses to evaluate the loan outside of DU. DU will issue a Limited Review eligibility finding for loans submitted through DU. The following chart provides the maximum LTV and CLTV ratios based on occupancy types.

Limited Review: Established Projects — Attached Condo Units — Maximum LTV/CLTV%			
Occupancy Type	DU Approve¹	All Other DU Recommendations²	Manual Underwriting
Principal residence	≤ 90%	≤ 80%	≤ 80%
Second home	≤ 75%	≤ 75%	≤ 75%
Investment property	Not allowed	Not allowed	Not allowed

Lenders must use one of the other project review processes for loans secured by units in projects that do not meet these parameters.

¹ Expanded Approval recommendations are not eligible.

² Includes Expanded Approval recommendations.

Mortgage Delivery Requirements

When delivering a mortgage loan for purchase or securitization, the lender must indicate that the loan is secured by a unit in a project reviewed under the Limited Review process by inserting the project review type code "Q" on one of the following forms:

- FRM/GEM Loan Schedule (Form 1068)
- ARM/GPARM Loan Schedule (Form 1069)
- Schedule of Mortgages (Form 2005)
- Uniform Underwriting and Transmittal Summary (Form 1008) (for manually underwritten loans)

See Shipping References for Various Products/Mortgages.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcement	Issue Date
Announcement 08-34	December 16, 2008

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-2, Project Standards/Section B4-2.2, Condo Project Eligibility / B4-2.2-03, Limited Review Process for Detached Condo Units (04/01/2009)



B4-2.2-03, Limited Review Process for Detached Condo Units (04/01/2009)

Introduction

This topic contains information on the limited review process for detached condo units.

Limited Review Process for Detached Condo Units

When a lender performs a Limited Review for a mortgage secured by a detached unit in a condo project, the lender warrants that the following eligibility criteria have been met.

✓	Limited Review Eligibility Criteria for Detached Condo Units
	The mortgage is secured by a single detached unit in a condo project.
	The mortgage is not secured by a manufactured home.
	The project is not an ineligible project.
	The condo unit is occupied as the owner's principal residence or second home, whether the loan is manually underwritten or submitted to DU.
	The condo unit is an investment property and the loan was submitted to DU.
	The appraiser commented on, and reflected in the appraisal report, any effect that buyer resistance to the condo form of ownership has on the market value of the individual unit.
	If the condo project is new, the appraiser used as a comparable sale at least one detached condo unit, which may be located either in a competing project or in the subject project, if the condo unit is offered by a builder other than the one that built the subject unit.
	The mortgage title insurance policy satisfies Fannie Mae's special title insurance requirements for units in condo projects. See Subpart B7, Insurance.
	<p>The property is either covered by</p> <ul style="list-style-type: none"> • the type of hazard and flood insurance coverage required for single-family detached dwellings, if the condo unit consists of the entire structure as well as the site and air space, or • the project's master hazard and flood insurance policies, if the condo unit consists only of the air space for the unit and the improvements and site are considered to be common areas or limited common areas. <p>See Subpart B7, Insurance.</p>

The lender's review of the project must cover any areas that affect its ability to make the required representations and warranties for a Limited Review.

The Limited Review process is intended to be used on a "spot loan" basis, meaning that lenders may originate loans that arise through the ordinary course of business. A lender may originate more than one loan in a particular project under the Limited Review process provided that the project is an established project and meets the requirements for Limited Review in this section.

However, if the lender has targeted the project with specific marketing efforts or is named as a preferred lender by either the developer or the project's home owner's association, the project is ineligible for Limited Review and the lender must use one of the other project review processes.

SFC 588 is required when delivering detached condo units.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcement	Issue Date
Announcement 08-34	December 16, 2009

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-2, Project Standards/Section B4-2.2, Condo Project Eligibility / B4-2.2-04, Lender Full Review: General Eligibility Requirements for All Condo Projects(04/01/2009)



B4-2.2-04, Lender Full Review: General Eligibility Requirements for All Condo Projects(04/01/2009)

Introduction

This topic contains information on general eligibility requirements for Lender Full Review of all condo projects.

- Overview
- Lender Full Review General Eligibility Criteria
- Lender Full Review: Additional Eligibility Requirements for Condo Projects Consisting of Two to Four Units

Overview

The Lender Full Review process is another method for the review of new and established condos. Lenders performing a Full Review must ensure that the project meets all applicable eligibility criteria.

Condo projects must meet both:

- Fannie Mae's general eligibility criteria, and
- Fannie Mae's additional criteria that are specific to each type of project.

Lender Full Review General Eligibility Criteria

When delivering loans secured by units in a condo project on the basis of a Lender Full Review, lenders must ensure adherence to the following requirements:

✓	Requirement
	The project must meet the requirements of the General Warranty of Project Eligibility. (See B4-2.1-01, General Information on Project Standards (12/30/2009).)
	The project must not be an ineligible project. (See B4-2.1-02, Ineligible Projects (10/30/2009).)

	The project must not be a manufactured housing project.
	The project must meet Fannie Mae insurance requirements, as stated in Subpart B7, Insurance.
	No more than 20% of the total square footage of the project can be used for commercial purposes.
	The units in the project must be owned in fee simple or leasehold. (See B2-3-04, Leasehold Estates (04/01/2009).)
	No more than 15% of the total units in a project may be 30 days or more past due on their homeowners' association (HOA) dues. For example, a 100 unit project may not have more than 15 units that are 30 days or more delinquent.
	Phase I and II environmental hazard assessments are not required for condo projects unless the lender identifies an environmental problem through the performance of its project underwriting and/or due diligence. In the event that environmental problems are identified, the problems must be determined to be acceptable, as described in E-2-03, Suggested Format for Phase I Environmental Hazard Assessments (04/01/2009).
	All rehabilitation work involved in a condo conversion must have been completed in a professional manner. <ul style="list-style-type: none"> • If the project is a new conversion that does not involve gut rehabilitation, lenders must review an engineer's report, or other substantially similar report, to verify that all necessary repair(s) are complete, and replacement reserves are identified for all capital improvements and noted as adequate by the party evaluating the project. • Gut rehabilitation refers to the renovation of a property down to the shell of the structure, including the replacement of all HVAC and electrical components. • For a conversion that was legally created during the past three years, the architect's or engineer's report, or functional equivalent, that was originally obtained for the conversion must comment favorably on the structural integrity of the project and the condition and remaining useful life of the major project components, such as the heating and cooling systems, plumbing, electrical systems, elevators, boilers, roof, etc.

Note: Lenders must retain all project documentation that supports its warranty that the project meets Fannie Mae eligibility criteria. This documentation must be retained from the time the lender first originates mortgages secured by units in the project until all such mortgages that were sold to Fannie Mae have been liquidated. The project documentation must be available upon request for Fannie Mae review.

Lender Full Review: Additional Eligibility Requirements for Condo Projects Consisting of Two to Four Units

A Lender Full Review of a project consisting of two to four units must comply with the general eligibility requirements for all projects, listed above, as well as the following requirements:

✓	Requirement
	No single entity; the same individual, investor group, partnership, or corporation may own more than one unit within the project.
	All units, common elements, and facilities within the project, including those that are owned by any master association, must be 100% complete.

	All but one unit in the project must have been conveyed to owner-occupant principal residence or second home purchasers.
	The unit owners must be the sole owners of, and have rights to the use of, the project's facilities, common elements, and limited common elements.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-2, Project Standards/Section B4-2.2, Condo Project Eligibility / B4-2.2-05, Lender Full Review: Additional Eligibility Requirements for New Condo Projects and Newly Converted Attached Condo Projects(10/30/2009)



B4-2.2-05, Lender Full Review: Additional Eligibility Requirements for New Condo Projects and Newly Converted Attached Condo Projects(10/30/2009)

Introduction

This topic contains information on lender full review of new condo projects and newly converted attached condo projects, including:

- Eligibility Criteria for the Full Review of New Condo Projects and Newly Converted Attached Condo Projects
- Reviewing the Overall Development Plan
- Completion and Construction Assurance Arrangements
- Marketing the Unit Estates
- Retention of Amenities
- Project Management
- Unit Occupancy

Eligibility Criteria for the Full Review of New Condo Projects and Newly Converted Attached Condo Projects

When performing a Lender Full Review of a new condo project or newly converted attached condo projects, lenders must ensure compliance with the following additional requirements:

✓	Requirements
	Compliance with general requirements for all condo projects listed in B4-2.2-04, Lender Full Review: General Eligibility Requirements for All Condo Projects(04/01/2009).
	The project, or the subject legal phase, must be "substantially complete." This means that: <ul style="list-style-type: none"> • a certificate of occupancy or other substantially similar document has been issued by the applicable governmental agency for the project or subject phase, and • all the units in the building in which the unit securing the mortgage is located are

	<p>complete, subject to the installation of buyer selection items, such as appliances.</p> <p>Note: Fannie Mae does not require the installation of typical buyer selection items such as appliances, floor coverings, counter tops, and/or light fixtures that are common and customary for the market, although buyer selections that involve the modification of a unit floor plan must be complete. Lenders are expected to obtain appropriate documentation to support that all buyer selection items for the unit being financed are properly installed prior to closing.</p>
	<p>At least 70% of the total units in the project or subject legal phase must have been conveyed or be under a bona fide contract for purchase to owner-occupant principal residence or second home purchasers.</p> <p>CPM Expedited Review has more flexible presale requirements for attached new or newly converted condo projects. See B4-2.2-12, Geographic-Specific Condo Project Considerations (12/30/2009) for geographic-specific restrictions.</p> <ul style="list-style-type: none"> • For a specific legal phase or phases in a new project, at least 70% of the total units in the subject legal phase(s), considered together with all prior legal phases, must have been conveyed or be under contract to be sold to owner-occupant principal residence or second home purchasers. • For the purposes of this review process, a project consisting of one building cannot have more than one legal phase.
	<p>Lenders must represent and warrant that the project meets the legal requirements addressed in B4-2.2-13, Condo Project Review and Legal Document Requirements (10/30/2009).</p>
	<p>Lenders must review the homeowners' association projected budget to determine that:</p> <ul style="list-style-type: none"> • it is adequate (i.e., it includes allocations for line items pertinent to the type of condo), • it provides for the funding of replacement reserves for capital expenditures and deferred maintenance at least 10% of the budget, and • it provides adequate funding for insurance deductible amounts. <p>Note: Increased insurance costs have resulted in associations increasing their insurance deductible amounts to reduce annual premiums. Insurance deductibles can be quite substantial. Fannie Mae does not require a separate budget line item for insurance deductibles, but the potential cost of deductibles must be accounted for in the budget. Insurance deductibles may be included in the reserve fund or may be a separate item. In either case, the lender must determine that the project has the ability to fund insurance deductibles.</p>
	<p>No more than 15% of the total units in an attached condo project can be 30 days or more past due on the payment of their condo/association fee payments.</p>
	<p>No single entity—the same individual, investor group, partnership, or corporation other than the developer during the initial marketing period—may own more than 10% of the total units in the project.</p>
	<p>The unit owners must be the sole owners of, and have rights to the use of, the project's facilities, common elements, and limited common elements.</p>
	<p>The project must be located on one contiguous parcel of land. The project may be divided</p>

	by a public street.
	The structures within the project must be within a reasonable distance from each other.
	Common areas and facilities—such as recreational facilities and parking—must be consistent with the nature of the project and competitive in the marketplace.
	Overall development plan: If a new project is part of a larger development, and the unit owners are required to pay monthly assessments of more than \$50 to a separate master association for that development, lenders must review the overall development plan for the master association to evaluate the acceptability of the project.

Reviewing the Overall Development Plan

When reviewing the overall development plan to determine the project's potential viability, lenders must evaluate the:

- consistency of future and existing improvements;
- time limitations for expansion; and
- reciprocal easements between legal phases.

Completion and Construction Assurance Arrangements

Lenders must determine that acceptable completion assurance arrangements have been provided for new projects (or newly converted attached condo projects) that are only substantially completed.

These include cash deposits, letters of credit, assignments of certificates of deposit, or assignments of other assets that can be easily converted to cash.

Similar arrangements must be provided to support assurances against construction and structural defects. The assurances should:

- protect each unit against defects that become apparent within one year from the date of its settlement, and
- cover all common facilities for one year from the time when units that represent 60% of the votes in the homeowners' association have been transferred.

Marketing the Unit Estates

The sales program developed for marketing units in a project must recognize and provide procedures for complying with all laws pertaining to:

- the advertising and sale of real estate,
- the form and content of sales agreements, and
- the method for handling deposits connected with a sale.

Note: When the homeowners' association retains the right to provide a substitute buyer or to have the first option to purchase a unit, that right cannot be exercised in any way that could be interpreted as unlawful discrimination or impair the marketability of the units in the project.

Retention of Amenities

Facilities related to the project must be owned by the unit owners or the homeowners' association. The developer may not retain any ownership interest in any of the facilities related to the project. The amenities and facilities—including parking and recreational facilities—may not be subject to a lease between the unit owners or the homeowners' association and another party.

Project Management

The developer or sponsor should provide for and promote the unit owners' early participation in the management of the project.

Fannie Mae prefers that the project be managed by an independent professional management firm. The contract with the management firm should be for a reasonable term, and should include equitable provisions for its termination.

Unit Occupancy

Individual units in new condo projects must be available for immediate occupancy at the time of loan closing.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement 08-34	December 16, 2008

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-2, Project Standards/Section B4-2.2, Condo Project Eligibility / B4-2.2-06, Lender Full Review: Additional Eligibility Requirements for Established Condo Projects(10/30/2009)



B4-2.2-06, Lender Full Review: Additional Eligibility Requirements for Established Condo Projects(10/30/2009)

Introduction

This topic contains information on Lender Full Review of established condo projects.

Eligibility Criteria for the Full Review of Established Projects

When performing a Lender Full Review of an established condo project, lenders must ensure compliance with the following additional requirements:

✓	Requirement
	Compliance with general requirements for all condo projects listed in B4-2.2-04, Lender Full Review: General Eligibility Requirements for All Condo Projects(04/01/2009).
	All units, common elements, and facilities within the project must be 100% complete.
	The project cannot be subject to additional phasing or annexation.
	<p>At least 51% of the total units in the project must be conveyed to purchasers as principal residences or second homes.</p> <p>This requirement does not apply when lenders deliver mortgage loans secured by principal residences or second homes.</p> <p>See B4-2.2-07, Owner-Occupancy Ratio Requirements and Financial Institution-Owned REO Units (10/30/2009) for information regarding provisions for financial institution-owned REO.</p>
	<p>Lenders must review the homeowners' association actual budget to determine the budget:</p> <ul style="list-style-type: none"> • is adequate (i.e., it includes allocations for line items pertinent to the type of condo), • provides for the funding of replacement reserves for capital expenditures and deferred maintenance equal to at least 10% of the budget, • provides adequate funding for insurance deductible amounts.
	No more than 15% of the total units in an attached condo project can be 30 days or more past due on the payment of their condo/association fee payments.
	All facilities related to the project must be owned by the unit owners or the homeowners' association.
	The developer may not retain any ownership interest in any of the facilities related to the project.
	The amenities and facilities (including parking and recreational facilities) cannot be subject to a lease between the unit owners or the homeowners' association and another party.
	<p>Separate metering of individual units is recommended but not generally required. For projects in which the units are not separately metered, the lender must:</p> <ul style="list-style-type: none"> • determine that having multiple units on a single meter is common and customary in the local market where the project is located, and • confirm that the project budget includes adequate funding for utility payments.
	Unit owners in the project must have the sole ownership interest in, and rights to the use of the project's facilities, common elements, and limited common elements.
	At least 90% of the total units in the project must have been conveyed to the unit purchasers.
	Control of the homeowners' association must have been turned over to the unit purchasers.
	No single entity; the same individual, investor group, partnership, or corporation may own more than 10% of the total units in the project. In the case of a project that has fewer than ten units, no single entity may own more than one unit.
	The project must be covered by the kinds of insurance; hazard, flood, liability, and fidelity required by Fannie Mae for a condo project. See Subpart B7, Insurance.
	The project must be demonstrably well managed.

	<p>If the project is professionally managed:</p> <ul style="list-style-type: none"> • the management contract should be for a reasonable term, and • the management contract's termination provision must not require a penalty payment or advance notice of more than 90 days.
	<p>The project must be located on one contiguous parcel of land.</p> <p>Note: The project may be divided by a public street.</p>
	<p>The structures within the project must be within a reasonable distance from each other.</p>
	<p>Common elements and facilities—such as recreational facilities and parking—must be consistent with the nature of the project and competitive in the marketplace.</p>

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement 08-34	December 16, 2008

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-2, Project Standards/Section B4-2.2, Condo Project Eligibility / B4-2.2-07, Owner-Occupancy Ratio Requirements and Financial Institution-Owned REO Units (10/30/2009)



B4-2.2-07, Owner-Occupancy Ratio Requirements and Financial Institution-Owned REO Units (10/30/2009)

Introduction

This topic contains information on owner-occupancy ratio requirements and financial institution-owned REO units.

Owner-Occupancy Ratio Requirements and Financial Institution-Owned REO Units

Lenders may count financial institution-owned REO units that are for sale (not rented) as owner-occupied when calculating the 51% owner-occupancy ratio requirement for established, attached unit condo projects if the mortgage loan being delivered is secured by (purchase or refinance) an investment property.

The REO unit must be for sale (not rented) as an owner-occupied unit.

Projects where a borrower is an investor and the project does not meet the owner occupied ratio of 51% will only be eligible if the lender submits the project:

- to Fannie Mae for review under PERS and the project is approved, or
- as a single-loan project eligibility waiver and Fannie Mae approves the waiver based on its review of

the overall risk of the project.

For PERS information, see B4-2.2-08, Project Eligibility Review Service (PERS) (04/30/2010).

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcement	Issue Date
Announcement 08-34	December 16, 2008

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-2, Project Standards/Section B4-2.2, Condo Project Eligibility / B4-2.2-08, Project Eligibility Review Service (PERS) (04/30/2010)



B4-2.2-08, Project Eligibility Review Service (PERS) (04/30/2010)

Introduction

This topic contains information on Fannie Mae's Project Eligibility Review Service (PERS).

- What is PERS?
- Required Use of PERS
- PERS Submission Process
- Availability of Project Information
- Decision Expiration Dates
- Mortgage Delivery Requirements

What is PERS?

The Project Eligibility Review Service (PERS) is an option available to lenders to submit new and newly converted condo projects to Fannie Mae to determine eligibility. Lenders must submit complete project packages to Fannie Mae via e-mail to PERS (see E-1-03, List of Contacts (04/30/2010)). Upon completion of its review, Fannie Mae will issue one of the following project eligibility determinations:

- Conditional Project Approval,
- Final Project Approval,
- Ineligible, or

- Suspension of the Application.

Required Use of PERS

Attached, new, and newly converted condo projects located in Florida must be submitted to PERS to determine eligibility.

PERS Submission Process

The PERS process submission is as follows:

Step	Action
1.	The lender performs a basic review to determine if the project satisfies eligibility requirements prior to submission to PERS.
2.	The lender completes a project submission package, which includes: <ul style="list-style-type: none"> • Project Eligibility Review Service Document Checklist (Form 1030), and • Application for Project Approval (Form 1026).
3.	The lender must represent and warrant that the project meets the legal requirements addressed in B4-2.2-13, Condo Project Review and Legal Document Requirements (10/30/2009).
4.	The lender submits the complete project package, including all relevant supporting documentation, via email. See E-1-03, List of Contacts (04/30/2010).
5.	A member of the Fannie Mae Project Standards team reviews the package to determine if the project is eligible for approval.
6.	Upon completion of the review, Fannie Mae issues its decision to the lender via email and posts approved projects on eFannieMae.com. See Accepted Condos, Co-ops, and PUDs.
7.	Fannie Mae informs the lender of the specific review fee assessed for each PERS submission. Lenders are billed for PERS review fees in their "Monthly Technology Invoice." For fees see Project Eligibility Review Service on eFannieMae.com.

Availability of Project Information

Lenders submitting condo projects to PERS must ensure that the developer, builder, management company, and/or homeowner's association will provide project information to Fannie Mae as and when requested without charge. In the event the requested information is not provided, Fannie Mae reserves the right to withdraw the PERS approval.

Decision Expiration Dates

Conditional Project Approval decisions expire six months after issuance.

Final Project Approval decisions expire one year after issuance.

For information on requesting an extension, see Project Approval Extensions on eFannieMae.com.

Mortgage Delivery Requirements

When delivering a mortgage loan for purchase or securitization, the lender must indicate that the loan is secured by a unit in a project reviewed under the PERS process by inserting the project review type code "T" on one of the following forms:

- FRM/GEM Loan Schedule (Form 1068),
- ARM/GPARM Loan Schedule (Form 1069),
- Schedule of Mortgages (Form 2005), and
- Uniform Underwriting and Transmittal Summary (Form 1008), (for manually underwritten loans)

See Loan Delivery Data Requirements.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2010-06	April 30, 2010
Announcement 08-34	December 16, 2008

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-2, Project Standards/Section B4-2.2, Condo Project Eligibility / B4-2.2-09, Condo Project Manager (CPM) Expedited Review for New and Established Condo Projects(10/30/2009)



B4-2.2-09, Condo Project Manager (CPM) Expedited Review for New and Established Condo Projects(10/30/2009)

Introduction

This topic contains information on CPM Expedited Review, including:

- What Is CPM?
- Delivering Loans With CPM
- CPM Representations and Warranties
- CPM Certifications
- Eligibility Requirements and Lender Review

What Is CPM?

Condo Project Manager (CPM) is a web-based tool designed to help lenders determine if a project will meet Fannie Mae's eligibility requirements. CPM is available on eFannieMae.com. CPM decisions are based on lender data. Lenders must document the loan file with the CPM decision. New and newly converted condo projects consisting of attached units located in Florida are not eligible for CPM review. See B4-2.2-08, Project Eligibility Review Service (PERS) (04/30/2010) and B4-2.2-12, Geographic-Specific Condo Project Considerations (12/30/2009).

Delivering Loans With CPM

When delivering mortgage loans secured by individual units in condo projects reviewed under the CPM Expedited Review process, the lender must identify the project review type code as "R" for new projects or "S" for CPM Expedited Review for established projects on the following forms:

- FRM/GEM Loan Schedule (Form 1068)
- ARM/GPARM Loan Schedule (Form 1069)
- Schedule of Mortgages (Form 2005)

For manually underwritten loans, the Uniform Underwriting and Transmittal Summary (Form 1008) must state that the project was reviewed in accordance with Fannie Mae's CPM requirements. Form 1008 is not required for loans underwritten with DU.

CPM Representations and Warranties

The submitting lender represents and warrants that data provided to CPM is correct and the project meets all applicable Fannie Mae eligibility requirements.

CPM Certifications

Condo Project Manager's project certification is valid for six months for new projects, and one year for established projects. Lenders may recertify the project by updating the project data in CPM as needed.

Eligibility Requirements and Lender Review

All eligibility requirements are built into CPM. The table below highlights certain unique project eligibility and lender review requirements for CPM.

✓	Requirements
	New and established condo projects consisting of manufactured homes are not eligible for CPM review and must be submitted to Fannie Mae for review.
	Lenders may use CPM to determine project acceptance for new and established projects. Note: Projects that consist of four or fewer units have specific eligibility requirements under the Expedited Review process.
	Presale and investor concentration in some cases are more flexible than the Lender Full Review eligibility requirements.
	Lenders must review the homeowners' association budget (not required for two-to four-unit projects):

	<ul style="list-style-type: none"> • the actual budget for established projects, and • the projected budget for new projects.
	<p>The lender's review of the budget must conclude:</p> <ul style="list-style-type: none"> • the budget is adequate (i.e., it includes allocations for line items pertinent to the type of condo); • the budget provides for the funding of replacement reserves for capital expenditures and deferred maintenance (at least 10% of the budget); and • the budget provides adequate funding for insurance deductible amounts. <p>Note: Increased insurance costs have resulted in homeowners' associations increasing their insurance deductible amounts to reduce annual premiums. Insurance deductibles can be quite substantial. Fannie Mae does not require a separate budget line item for insurance deductibles, but the potential cost of deductibles must be accounted for in the budget. Insurance deductibles may be included in the reserve fund or may be a separate item. In either case, the lender must determine that the project has the ability to fund insurance deductibles.</p>
	For new projects, the lender must represent and warrant that the project meets the legal requirements addressed in B4-2.2-13, Condo Project Review and Legal Document Requirements(10/30/2009).
	The project must be covered by the kinds of insurance — hazard, flood, liability and fidelity — required by Fannie Mae for a condo project. See Subpart B7, Insurance.
	No more than 15% of the total units in an attached condo project can be 30 days or more past due on the payment of their condo/association fee payments.
	No single entity — the same individual, investor group, partnership, or corporation other than the developer during the initial marketing period may own more than 10% of the total units in the project. In the case of a project that has fewer than ten units, no single entity may own more than one unit.
	The lender must determine that nonresidential space does not exceed 20% of the project's total square footage.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement 08-34	December 16, 2008

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-2, Project Standards/Section B4-2.2, Condo Project Eligibility / B4-2.2-10, FHA-Approved Condo Review Eligibility (12/30/2009)



B4-2.2-10, FHA-Approved Condo Review Eligibility (12/30/2009)

Introduction

This topic contains information on FHA-Approved condo review eligibility.

- Overview
- Representations and Warranties
- Delivering FHA Mortgage Loans Secured by Units in FHA-Approved Condo Projects

Overview

Fannie Mae accepts delivery of FHA mortgage loans in FHA-approved condo projects that appear on the FHA-approved condo list. For conventional mortgage loans, the condo project must meet Fannie Mae's project eligibility requirements. FHA condo approval alone is not acceptable for conventional mortgage loans.

Lenders may search for FHA-approved condo projects by location, name, or project status online at <https://entp.hud.gov/idapp/html/condlook.cfm> or through CPM.

Lenders must maintain printed copies of the FHA approval documentation in the loan file.

Representations and Warranties

When lenders deliver mortgage loans secured by condo units in an FHA-approved project, lenders make the warranty of project eligibility set forth in B4-2.1-04, Project Identification and Document Retention (04/01/2009).

In addition, lenders represent and warrant that:

- the FHA standard conditions have been met for presale, occupancy status, and completion;
- any additional conditions noted by FHA have been met,
- the project is not an ineligible project as defined in B4-2.1-02, Ineligible Projects (10/30/2009),
- the project is covered by the required insurance as set forth in B4-2.1-05, Project Insurance Requirements (04/01/2009), and
- the project is not comprised of manufactured homes.

Delivering FHA Mortgage Loans Secured by Units in FHA-Approved Condo Projects

When delivering FHA mortgage loans secured by individual units in FHA-approved condo projects, the lender must identify the project review type code "U" for an FHA-approved project on the following documents:

- FRM/GEM Loan Schedule (Form 1068)
- ARM/GPARM Loan Schedule (Form 1069)

- Schedule of Mortgages (Form 2005)

For manually underwritten loans, the Uniform Underwriting and Transmittal Summary (Form 1008) must state that the project is FHA-approved. Form 1008 is not required for loans underwritten with DU.

Related Announcements

The table below provides references to the Announcements that have been released that are related to this topic.

Announcements	Issue Date
Announcement 09–37	December 30, 2009

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-2, Project Standards/Section B4-2.2, Condo Project Eligibility / B4-2.2-11, Fannie Mae Review of Condo Projects Comprised of Manufactured Homes (04/01/2009)



B4-2.2-11, Fannie Mae Review of Condo Projects Comprised of Manufactured Homes (04/01/2009)

Introduction

This topic contains information on Fannie Mae review of Manufactured Housing Projects.

- Overview
- Lender Requirements
- Delivering Condo Units in Manufactured Home Projects Accepted by Fannie Mae

Overview

All condo projects comprised of manufactured homes must be submitted to Fannie Mae for review and acceptance, with the exception of multi-width manufactured homes that are part of a PUD project.

Lenders that would like to submit a project comprised of manufactured housing for Fannie Mae review must contact the Project Standards team (see E-1-03, List of Contacts (04/30/2010)) to discuss the project and Fannie Mae's project submission requirements.

The eligibility criteria for Fannie Mae Review will differ slightly depending on whether the project is new or established.

Lender Requirements

The table below provides lender requirements for review of projects comprised of condo manufactured homes.

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✓	Lenders must
	review all aspects of the project to determine that it satisfies Fannie Mae condo eligibility requirements as stated in B4-2.2-01, Condo Project Eligibility (12/30/2009), and B4-2.2-04, Lender Full Review: General Eligibility Requirements for All Condo Projects(04/01/2009).
	perform a thorough underwriting analysis of the project.
	present its underwriting analysis conclusion when the project is submitted to Fannie Mae for consideration.

Delivering Condo Units in Manufactured Home Projects Accepted by Fannie Mae

When delivering mortgage loans secured by condo units in manufactured home projects reviewed under the Fannie Mae Review acceptance process, the lender must identify the project review type code "T", as well as special feature code 235 on the following documents:

- FRM/GEM Loan Schedule (Form 1068)
- ARM/GPARM Loan Schedule (Form 1069)
- Schedule of Mortgages (Form 2005)

For manually underwritten loans, the Uniform Underwriting and Transmittal Summary (Form 1008) must state that the project was reviewed by Fannie Mae. Form 1008 is not required for loans underwritten with DU.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-2, Project Standards/Section B4-2.2, Condo Project Eligibility / B4-2.2-12, Geographic-Specific Condo Project Considerations (12/30/2009)



B4-2.2-12, Geographic-Specific Condo Project Considerations (12/30/2009)

Introduction

This topic contains information on geographic-specific condo project considerations, including:

- Florida — Attached Units New and Newly Converted in Condo Projects
- Florida — Project Review LTV Requirements for Attached Projects (New, Newly Converted and Established)

Florida — Attached Units New and Newly Converted in Condo Projects

PERS is required for new and newly converted condo projects consisting of attached units located in Florida. See B4-2.2-08, Project Eligibility Review Service (PERS) (04/30/2010).

The following lender delegated review types are prohibited for loans secured by such projects in Florida:

- Lender Full Review,

- Limited Review, and
- CPM Expedited Review.

All new or newly converted Florida condo projects that were submitted to CPM and received a “Certified by Lender” recommendation or “Owner-Occupied and Second Home” recommendation as of January 15, 2009, will be valid until expiration. Recertifications will not be permitted.

Note: Projects with a Conditional Final Project Acceptance or Final Project Acceptance are valid until the expiration date.

Florida — Project Review LTV Requirements for Attached Projects (New, Newly Converted and Established)

The following table provides the project review requirements for loans secured by units in condo projects located in Florida. The required project review type depends on the LTV ratio of the mortgage loan.

Florida — Established Condo Projects				
	PERS Approved	Lender Full Review	CPM Expedited Review	Limited Review
Principal Residence	97% — DU	97% — DU	75%	
	95% — Non-DU	95% — Non-DU		
Second Home	90%	90%	70%	
Investor	85%	85%	Not Eligible	

Florida — New and Newly Converted Condo Projects				
	PERS	Lender Full Review	CPM Expedited Review	Limited Review
Principal Residence	97% — DU	Not Eligible		
	95% — Non-DU			
Second Home	90%			
Investor	85%			

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement 09-37	December 30, 2009
Announcement 08-34	December 16, 2008

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4,

Underwriting Property/Chapter B4-2, Project Standards/Section B4-2.2, Condo Project Eligibility / B4-2.2-13, Condo Project Review and Legal Document Requirements(10/30/2009)



B4-2.2-13, Condo Project Review and Legal Document Requirements (10/30/2009)

Introduction

This topic contains information on legal requirements for Lender Full Review, PERS, and CPM, including:

- Condo Project Legal Document Review Requirements
- Condo Project Legal Document Requirement: Compliance with Laws

Condo Project Legal Document Review Requirements

The table below provides Fannie Mae's requirements for the review of the condo project's legal documents.

Project Type	Review of Condo Project's Legal Documents Required?
Established Condo Projects	No. Lenders do not have to represent or warrant compliance with Fannie Mae condo project legal document requirements.
Two- to Four-Unit Projects (New and Established)	No. Lenders do not have to represent or warrant compliance with Fannie Mae condo project legal document requirements.
New Condo Projects (excluding two- to four-unit projects)	<p>CPM and Lender Full Review: Yes. The lender must represent and warrant that the condo project's legal documents comply with Fannie Mae's requirements listed below. Attorney review of condo project legal documents is optional.</p> <p>PERS: Yes. The lender must represent and warrant that the condo project's legal documents comply with Fannie Mae's requirements listed below. A qualified attorney engaged by the lender must review the condo project legal documents and determine that the documents are in compliance with Fannie Mae's requirements listed below.</p> <p>This determination must be documented by the attorney in writing but need not rise to the level of a formal, written legal opinion. The attorney may be the same person who prepared the legal documents or an attorney employed by the lender, but he or she cannot be an employee, principal, or officer of the developer or sponsor of the project. The lender must complete the Warranty of Condominium Project Legal Documents (Form 1054) and attach the attorney review as part of the PERS submission process. The lender must retain</p>

all legal documents and make them available to Fannie Mae upon request.

Condo Project Legal Document Requirement: Compliance with Laws

In addition to representing and warranting that the condo project has been created and exists in full compliance with the state law requirements of the jurisdiction where the condo project is located and all other applicable laws and regulations, lenders also must represent and warrant as follows with respect to the project's legal documents:

<p>Limitations on Ability to Sell/Right of First Refusal</p>	<p>Any right of first refusal in the condo project documents will not adversely impact the rights of a mortgagee or its assignee to:</p> <ul style="list-style-type: none"> • Foreclose or take title to a condo unit pursuant to the remedies in the mortgage; • Accept a deed or assignment in lieu of foreclosure in the event of default by a mortgagor; • Sell or lease a unit acquired by the mortgagee or its assignee.
<p>Rights of Condo Mortgagees and Guarantors</p>	<p>The project documents must give the mortgagee and guarantor of the mortgage on any unit in a condo project the right to timely written notice of:</p> <ul style="list-style-type: none"> • Any condemnation or casualty loss that affects either a material portion of the project or the unit securing its mortgage; • Any 60-day delinquency in the payment of assessments or charges owed by the owner of any unit on which it holds the mortgage; • A lapse, cancellation, or material modification of any insurance policy maintained by the homeowners' association; and • Any proposed action that requires the consent of a specified percentage of mortgagees.
<p>First Mortgagee's Rights Confirmed</p>	<p>No provision of the condo project documents gives a condo unit owner or any other party priority over any rights of the first mortgagee of the condo unit pursuant to its mortgage in the case of payment to the unit owner of insurance proceeds or condemnation awards for losses to or a taking of condo units and/or common elements.</p>
<p>Unpaid Dues</p>	<p>Any first mortgagee who obtains title to a condo unit pursuant to the remedies in the mortgage or through foreclosure will not be liable for more than six months of the unit's unpaid regularly budgeted dues or charges accrued before acquisition of the title to the unit by the mortgagee. If the condo association's lien priority includes costs of collecting unpaid dues, the lender will be liable for</p>

	any fees or costs related to the collection of the unpaid dues.
Amendments to Documents	<p>Required provisions related to amendments to project documents are as follow:</p> <ul style="list-style-type: none"> • The project documents must provide that amendments of a material adverse nature to mortgagees be agreed to by mortgagees that represent at least 51% of the votes of unit estates that are subject to mortgages. • The project documents must provide for any action to terminate the legal status of the project after substantial destruction or condemnation occurs or for other reasons to be agreed to by mortgagees that represent at least 51% of the votes of the unit estates that are subject to mortgages. • The project documents may provide for implied approval to be assumed when a mortgagee fails to submit a response to any written proposal for an amendment within 60 days after it receives proper notice of the proposal, provided the notice was delivered by certified or registered mail, with a return receipt requested. Notwithstanding the foregoing, project documents that were recorded prior to August 23, 2007, may provide for implied approval to be assumed when a mortgagee fails to submit a response to any written proposal for an amendment within 30 days after it receives proper notice of the proposal, provided the notice was delivered by certified or registered mail, with a return receipt requested.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement 08-34	December 16, 2008

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-2, Project Standards/Section B4-2.3, PUD Requirements and Cooperative Project Eligibility/ B4-2.3-01, PUD: Lender Full Review Requirements(04/01/2009)



B4-2.3-01, PUD: Lender Full Review Requirements(04/01/2009)

Introduction

This topic contains information on eligibility requirements for PUD projects.

Eligibility Requirements for PUD Projects

A planned unit development (PUD) is a project or subdivision that consists of common property and improvements that are owned and maintained by a homeowners' association for the benefit and use of the individual PUD units.

In order for a project to qualify as a PUD, each unit owner's membership in the homeowners' association must be automatic and nonseverable, and the payment of assessments related to the unit must be mandatory.

Zoning is not a basis for classifying a project or subdivision as a PUD.

Fannie Mae classifies PUD projects as Type E, established PUD projects, and Type F, new PUD projects.

Fannie Mae will not review any PUD projects except those consisting of single-width manufactured housing units.

Fannie Mae does not require a lender to perform a review of a PUD project if the mortgage being delivered is secured by a detached unit within a PUD.

When reviewing a PUD project with attached units (whether new or established), lenders should determine that the project meets the following requirements:

☐	Lender Full Review for Attached PUDs
	The project satisfies the warranty requirements of B4-2.1-01, General Information on Project Standards (12/30/2009).
	The project is not an ineligible project, in accordance with B4-2.1-02, Ineligible Projects (10/30/2009).
	The project does not consist of single-width manufactured housing units.
	The individual unit securing the mortgage satisfies Fannie Mae's insurance requirements for PUD projects.
	The individual unit securing the mortgage is 100% complete.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-2, Project Standards/Section B4-2.3, PUD Requirements and Cooperative Project Eligibility/ B4-2.3-02, Cooperative Project Eligibility (10/30/2009)



B4-2.3-02, Cooperative Project Eligibility (10/30/2009)

Introduction

This topic contains information on cooperative (co-op) project eligibility, including:

- Co-op Project Eligibility Overview
- Form 1074, Request for Cooperative Project Information

- Eligible Co-op Projects
- Co-op Project — Lender Full Review

Co-op Project Eligibility Overview

Fannie Mae purchases or securitizes co-op share loans for units in co-op projects.

Lenders must determine the acceptability of a co-op project, unless the project is comprised of manufactured homes (see B5-2.4-02, Manufactured Housing Loan Eligibility (04/01/2009)).

The lack of available co-op project data and the inconsistent reporting of co-op project information can be a barrier to obtaining affordable financing for co-op housing.

Lenders are responsible for determining the most appropriate method for obtaining information about co-op projects and the accuracy of the information it obtains.

Form 1074, Request for Cooperative Project Information

Form 1074, Request for Cooperative Project Information, includes the project information that most lenders, investors, and mortgage insurers use in their evaluation of the eligibility of a co-op project, and provides an efficient means of collecting basic project information from co-op project management agents, boards of directors, or sponsors/developers.

Lenders must retain any of the documentation needed to support the warranty that the project meets Fannie Mae eligibility and underwriting criteria.

This documentation must be retained as long as the lender originates share loans from the project and until all share loans sold to Fannie Mae have been liquidated.

Eligible Co-op Projects

In order for a co-op share loan to be eligible for delivery, the co-op project in which the secured unit is located must qualify as a cooperative housing corporation under Section 216 of the Internal Revenue Service Code.

The table below provides project eligibility requirements for co-ops.

✓	Requirement
	<p>The co-op corporation must provide the lender with a statement about the project's compliance with Section 216 of the Code.</p> <p>Note: If the co-op project does not meet Section 216 requirements, Fannie Mae will not purchase a co-op share loan from within the project.</p>
	<p>Commercial use in the co-op project is limited to no more than 20% of the project's total square footage.</p>
	<p>The co-op housing project must:</p> <ul style="list-style-type: none"> • be designed principally for residential use, • consist of five or more units, and

	<ul style="list-style-type: none"> • be located in an area that has a demonstrated market acceptance for the co-op form of ownership.
	The project may be owned in fee simple.
	<p>The blanket project mortgage may be a market-rate FHA-insured mortgage or a conventional mortgage.</p> <p>Fannie Mae purchases or securitizes co-op share loans regardless of whether Fannie Mae owns the blanket mortgage.</p>
	<p>Fannie Mae will not purchase or securitize co-op share loans if the co-op project is an ineligible project type, regardless of the characteristics of the share loan.</p> <p>Note: Lenders may obtain exceptions in advance to accept share loans from such projects on a case-by-case basis from the Project Standards team (see E-1-03, List of Contacts (04/30/2010)).</p>
	Co-op projects may be newly constructed or conversions of existing buildings.
	All construction and rehabilitation for the project must be completed before Fannie Mae purchases or securitizes the share loan, unless the Project Standards Team (see E-1-03, List of Contacts (04/30/2010)) approves delivery at an earlier date.
	Lenders may not deliver cooperative share loans that account for more than 20% of the total number of units in the project. Lenders should contact the Project Standards Team if they wish to deliver a group of share loans that represent a greater percentage of the total units in the project.

Co-op Project — Lender Full Review

When delivering loans secured by units in a co-op project on the basis of a Lender Full Review, lenders must ensure adherence to the following requirements.

✓	Requirement
	The project must meet the requirements of the General Warranty of Project Eligibility.
	The project must not be an ineligible project.
	The project must not be a manufactured housing project.
	The project must meet Fannie Mae's insurance requirements, as stated in Subpart B7, Insurance.
	<p>Phase I and II environmental hazard assessments are not required for co-op projects unless the lender identifies an environmental problem through the performance of its project underwriting and/or due diligence.</p> <p>In the event that environmental problems are identified, the problems must be determined to be acceptable, as described in E-2-03, Suggested Format for Phase I Environmental Hazard Assessments (04/01/2009).</p>
	All rehabilitation work involved in a co-op conversion must be completed in a professional manner.
	For project conversions that did not involve gut rehabilitation, lenders must review an

	<p>engineer's report, or other substantially similar report, to verify that all necessary repair(s) are complete and replacement reserves are identified for all capital improvements and noted as adequate by the party evaluating the project.</p> <p>Gut rehabilitation refers to the renovation of a property down to the shell of the structure, including the replacement of all HVAC and electrical components.</p>
	For project conversions that were legally created during the past three years, the architect's or engineer's report, or functional equivalent, that was originally obtained for the conversion must comment favorably on the structural integrity of the project and the condition and remaining useful life of the major project components, such as the heating and cooling systems, plumbing, electrical systems, elevators, boilers, roof, etc.
	All mortgages in the project must be delivered to Fannie Mae within six months of the lender's review of the project.
	The lender must warrant that it is not aware of any change in circumstances since its review of the project that would result in the project no longer satisfying Fannie Mae's eligibility criteria.
	The project must be located in an area with a demonstrated market acceptance for the co-op form of ownership as reflected by the availability of similar comparable sales for co-op units in the market area.
	The project cannot be subject to additional phasing or annexation.
	The construction of the project (or all rehabilitation work involved in the conversion of an existing building to a co-op project) must be complete.
	Stock or share ownership and the accompanying occupancy rights that represent at least 80% of the total number of units in the project must have been sold and conveyed (or, for new construction, must be under a bona fide contract for sale) to principal residence purchasers.
	No more than 10% of the stock or shares in the co-op corporation and the related occupancy rights may be owned by any single entity including the same individual, investor group, partnership, or corporation, except for the developer or sponsor during the sales period.
	<p>The project's operating budget must</p> <ul style="list-style-type: none"> • be consistent with the nature of the project, • provide for adequate cash flow to service the current debt and operating expenses, and • provide for adequate replacement and operating reserves.
	The project must have a good financial record, with no more than 15% of the owners being more than one month delinquent in the payment of their financial obligations to the co-op corporation.
	Any blanket mortgage for the project must not be a balloon mortgage with a remaining term of less than three years or a mortgage that provides for interest rate adjustments.
	The project may not be the recipient of any subsidies or similar benefits such as tax or assessment abatements that will terminate partially or fully within the next three years.
	The project and share loan documentation must comply with Fannie Mae's general legal requirements and any specific legal requirements established for the state in which the project is located.
	The units in the project must be owned in fee simple.

	The unit owners must be the sole owners of, and have rights to the use of the project's facilities, common elements, and limited common elements.
	Lenders must retain all project documentation that supports the warranty that the project meets Fannie Mae eligibility criteria. Note: This documentation must be retained from the time the lender first originates mortgages secured by units in the project until all such mortgages that were sold to Fannie Mae have been liquidated.
	The project must meet the eligibility requirements.
	All units, common areas, and facilities within the project must be 100% complete.
	Facilities related to the project—such as parking, recreational facilities, etc.—must be owned by the co-op corporation. The developer or sponsor may not retain an ownership interest in any of them.
	Any commercial space in the project must be compatible with the overall residential nature of the project and should not be an inordinate amount of commercial space.
	The project must be demonstrably well managed.
	If the project is professionally managed, the management contract must be for a reasonable term and its termination provision must not require the payment of a penalty or advance notice of more than 90 days.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement 09-32	October 30, 2009
Announcement 08-34	December 16, 2008

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-2, Project Standards/Section B4-2.3, PUD Requirements and Cooperative Project Eligibility/ B4-2.3-03, Legal Requirements for Co-op Projects (04/01/2009)



B4-2.3-03, Legal Requirements for Co-op Projects (04/01/2009)

Introduction

This topic contains information on legal requirements for co-op projects.

- Legal Requirements
- Co-op Project Documentation

- Availability of Project Documents
- Availability of Audited Financial Statements
- Amendments to Documents
- Co-op Membership
- Co-op's Lien Position
- Prior Co-op Financing
- Assignment of Co-op's Lease/Occupancy Rights
- Co-op Corporation's Recognition Agreement, Responsibilities, and Lender's Rights
- Lender's Rights

Legal Requirements

The lender must review the project's legal documents to determine whether they are in compliance with the master association, state and local law and the requirements of this Guide. Fannie Mae may waive a specific requirement if the lender can show that the waiver will not adversely affect Fannie Mae's security. The lender should point out the possible need for a waiver when it submits an application for project acceptance.

Co-op Project Documentation

The co-op corporation must be a validly formed entity authorized to carry out its independent purposes and must be in compliance with all applicable state and local laws.

The co-op documents must provide

- terms that sufficiently explain the manner in which the corporation is managed and controlled;
- a legally permissible procedure for handling any losses or proceeds from condemnation, destruction, or liquidation of all or a part of the project or from termination of the project; and
- a requirement for hazard, flood, liability, and fidelity insurance coverages.

Availability of Project Documents

The project documents must require that the co-op corporation have current copies of the co-op project documentation as well as its own books, records, and financial statements available for inspection by tenant-stockholders or by holders, insurers, and guarantors of share loans for units in the project. Generally, these documents should be available during normal business hours.

Availability of Audited Financial Statements

When a project consists of 50 or more units:

- the project documentation must provide for the co-op corporation to make an audited statement for the preceding fiscal year (if the project has been established for a full fiscal year) available to the holder, insurer, or guarantor of any co-op share loan for a unit in the project on submission of a written request for it, and
- the documents must further provide for the audited financial statement to be available within 120 days of the co-op corporation's fiscal year-end.

If a project consists of fewer than 50 units and there is no audited statement available, the project documents must allow any share loan holder to have an audited statement prepared at its own expense.

Amendments to Documents

The co-op project's documents must provide for the tenant-stockholders to have the right to amend them. In addition, the co-op corporation must be legally bound to notify the holder of a co-op share loan about any proposed material changes to the co-op project with respect to allocation of membership interests; voting rights; assessments (including increases that raise the previous assessment amount by more than 25%, and the method of calculating liens or lien subordination); unit boundaries; insurance or fidelity coverages; restrictions on leasing or selling units; professional management (if Fannie Mae requires it); reduction in replacement or operating reserves and changes in maintenance policies; and any other provisions that are for the express benefit of the lender.

Co-op Membership

The project documents must require that the sale or transfer of stock, shares, or membership certificates in the co-op corporation be in compliance with federal and state security disclosure laws. The document also must require tenant-stockholders to own stock, shares, or a membership certificate, and permit the stock, shares, or membership certificates to be pledged and registered in the co-op corporation.

The project documents must give the tenant-stockholder a right to occupy the unit for a period that extends at least to the maturity date of the share loan, although this right should be subject to the terms and conditions of a proprietary lease or occupancy agreement between the tenant-stockholder and the co-op corporation. The documents also must prohibit the co-op corporation from imposing unreasonable limitations on the tenant-stockholder's ability to sell, transfer, or convey his or her membership, or to sublease his or her unit. If the purchaser's right to membership or occupancy is subject to any right of the co-op corporation to give approval, the lender must furnish evidence to clearly show that such approval has been given before Fannie Mae will purchase or securitize the co-op share loan.

Co-op's Lien Position

The co-op corporation must have good and marketable title to the property. The co-op corporation must own the property in fee simple and the project premises must be free and clear of liens and encumbrances, except for those disclosed to Fannie Mae by the lender. The lender must provide appropriate title evidence to indicate that Fannie Mae will be receiving full title protection.

The share loan must be secured by the assignment (in pledge or trust) of the leasehold estate; a pledge or trust of the corporation stock, shares, or membership certificate; and any other documents that are appropriate under individual state or local laws and practices. The share loan must be a first lien, except that, where custom dictates to the contrary, Fannie Mae will consider partial subordination of its lien to that portion of the co-op corporation's lien against the tenant-stockholder's shares for unpaid assessments that represents the *pro rata* share of the corporation's payments for the blanket mortgage, current year's real estate taxes, and special assessments.

The lender that is financing the share loan must receive an assignment of the proprietary lease or

occupancy agreement for all share loans that it delivers to Fannie Mae, together with stock power that authorizes the lender to transfer shares in the event of a default. Valid financing statements and assignments of financing statements must be executed and filed, if necessary to perfect Fannie Mae's security interest under the Uniform Commercial Code of the state in which the property is located. Information searches, or equivalent evidence of filing financing statements and assignments of financing statements, must be obtained and must show that Fannie Mae is the sole secured party. In those states in which co-op units are considered real property, perfection of the lien must comply with state law applicable to real estate.

Prior Co-op Financing

The co-op project must be in compliance with the requirements imposed by the holder of any prior financing for the project. If the blanket mortgage on a project includes a due-on-encumbrance clause and the project is located in a state in which share loans are considered to be an encumbrance on the project, the blanket lender must consent to the share loan financing. In the case of a conversion of an existing building, the blanket lender must agree to the use of the building as a co-op and, if it is feasible, agree—in the event of a default on the blanket mortgage—not to wipe out the shares of those tenant-stockholders who are current in the payment of their assessments or carrying charges.

Assignment of Co-op's Lease/Occupancy Rights

Generally, the project documents should not permit the co-op corporation to restrict the sale, conveyance, or transfer of a unit owned by a lender, its successors, or assigns, nor to place any limits on the assignment of the proprietary lease or occupancy agreement to the lender, its successors, or assigns. This lease or agreement must be assumable by the lender if the tenant-stockholder defaults on the share loan. If the co-op's organizational documents require that a tenant-stockholder be a natural person, they must permit the lender to select a non-corporate designee for any assignment of a proprietary lease or occupancy agreement that it acquires through foreclosure or acceptance of a deed in lieu of foreclosure. If the lender assumes the lease or agreement as the result of the tenant-stockholder's default, the co-op corporation must allow the lender to attempt to sell its interest in the lease or agreement. However, if the lender is unable to effect a satisfactory sale within 60 days—either through its own efforts or with assistance from the co-op corporation—the co-op corporation may not prohibit the lender from subletting the unit then, or for a period of up to three years after it acquired the unit.

The project documents may grant the co-op corporation the right to approve a lender's sublessee or to offer an alternate sublessee that is satisfactory to the lender. However, the co-op corporation's approval standards and procedures may not be unreasonably restrictive or in violation of applicable law, and the action must be completed within a reasonable time—no more than 30 days—after the lender requests approval of a proposed sublessee.

Co-op Corporation's Recognition Agreement, Responsibilities, and Lender's Rights

The project documents must either require the co-op corporation to execute a separate agreement—such as a recognition agreement—or include provisions to recognize specific rights of the lender that finances the share loan (or those of its successors or assigns) and the co-op corporation's responsibilities to that lender.

Co-op Corporation's Responsibilities

The recognition agreement (or the project's legal documents) must include, among other things, the following responsibilities for the co-op corporation:

- The co-op corporation must evict a tenant-stockholder who has defaulted on his or her share loan and must terminate that tenant-stockholder's lease, if the share loan holder requests it to do so.

- The co-op corporation must maintain insurance policies that meet Fannie Mae's minimum insurance requirements for co-ops.
- The co-op corporation must maintain replacement and operating reserves.
- The co-op corporation must be legally bound to notify the lender of any of the following changes or occurrences:
 - Any threatened or actual condemnation, eminent domain proceeding or acquisition, or any actual loss, whether or not covered by insurance, that affects any portion of the co-op project or unit;
 - The co-op corporation's generation—during any taxable year—of 80% or less of its gross income from "tenant-stockholders" income, as that term is defined in Section 216 of the Internal Revenue Code;
 - Any 30-day delinquency by the co-op corporation in payments due under any blanket mortgage for real estate taxes, assessments, and charges imposed by a government entity or public utility, or under any ground lease;
 - Any lapse, cancellation, or material modification of any insurance or fidelity insurance coverages maintained by the co-op project;
 - Any proposed action that requires the consent of a specified percentage of eligible share loan holders; and
 - Any 60-day delinquency by the tenant-stockholder that is related to the payment of his or her monthly assessments or carrying charges.

Lender's Rights

The project documents must grant the lender financing a share loan the right to cure the tenant-stockholder's defaults in his or her assessment payments or carrying charges and the right to review and approve the following actions before the co-op corporation can consent to them:

- any surrender, cancellation, modification, or assignment of any documents evidencing ownership, possession, and use of a unit;
- any sublease of a unit;
- any further or additional pledge or mortgage of any documents evidencing ownership, possession, and use of a unit;
- the addition of any blanket financing that is superior to the share loan if it would result in an annual increase of more than 10% in a unit's monthly assessments or carrying charges;
- any action to change the form of ownership of the project;
- any provisions that expressly benefit the blanket mortgage holder; or
- the contraction, expansion, or termination of the co-op project.

Fannie Mae Single Family/2010 Selling Guide/Part B, Origination Through Closing/Subpart B4, Underwriting Property/Chapter B4-2, Project Standards/Section B4-2.3, PUD Requirements and Cooperative Project Eligibility/ B4-2.3-04, Loan Eligibility for Co-op Share Loans (04/30/2010)



B4-2.3-04, Loan Eligibility for Co-op Share Loans (04/30/2010)

Introduction

This topic contains information on loan eligibility for co-op share loans, including:

- Overview
- Structure of the Co-op Share Loan
- Whole Loan and MBS Pool Deliveries
- Co-op Share Loan Eligibility Requirements
- Ineligible Mortgage Loan/Amortization Types
- Calculating the Loan-to-Value Ratio
- Acceptable Repayment Terms for Co-op Share Loans

Overview

The property that secures Fannie Mae's first lien is the borrower's ownership interest in a co-op housing corporation that is represented by stock or shares in the co-op housing corporation (or by a membership certificate or other contractual agreement evidencing ownership) and an assignment of the borrower's rights under a proprietary lease or occupancy agreement with the co-op housing corporation.

Structure of the Co-op Share Loan

A co-op share loan must be a lien that has priority over all other liens against the borrower's interest in the property, except that the lien may be subordinated to:

- that portion of the co-op corporation's lien against the tenant-stockholder's shares for unpaid assessments that represents
 - the *pro rata* share of the co-op corporation's payments for the blanket mortgage,
 - the current year's real estate taxes, and
 - any special assessments
- any assignment of rents or maintenance expenses in any
 - mortgage or deed of trust that is secured by the co-op project

- Regulatory Agreement entered into by the co-op corporation and the Secretary of HUD as a condition for obtaining HUD mortgage insurance.

Note: The *pro rata* share of the blanket mortgage that is related to the co-op share loan cannot exceed 30% of the sum of the related *pro rata* share of the blanket mortgage and the appraised equity interest value of the shares.

Whole Loan and MBS Pool Deliveries

Fannie Mae accepts whole loan deliveries of co-op share loans under Fannie Mae's standard commitments.

MBS pool deliveries that consist of co-op share loans must always be delivered under negotiated contracts, generally as separate pools. However, co-op share loans can be commingled in MBS pools that include other types of mortgages, provided they do not represent more than 10% of the aggregate issue date principal balance for the pool.

Note: See Part C, Selling, Securitizing, and Delivering Loans, for additional limitations that may apply if other special product characteristics are present.

Co-op Share Loan Eligibility Requirements

Fannie Mae will purchase co-op share loans if the criteria detailed in the following table is met.

✓	Requirement
	Fannie Mae will not purchase or securitize co-op share loans that are subject to subordinate financing.
	The co-op share loan must be secured by stock or shares in the co-op corporation (or by a membership certificate or other contractual agreement evidencing ownership) and the accompanying exclusive occupancy rights related to a single-family dwelling in the project.
	The borrower must occupy the property as a principal residence or second home. Investment properties are prohibited.
	The tenant-stockholder (borrower) must have a right to occupy the unit for a period that extends at least to the maturity date of the share loan although this right will be subject to the terms and conditions of a proprietary lease or occupancy agreement that he or she entered into with the co-op housing corporation.
	The tenant-stockholder must own either stock, shares, or membership certificates in the co-op housing corporation.
	If Fannie Mae owns an interest in the blanket co-op project mortgage, the maximum mortgage amount that would otherwise be available for a co-op share loan from that project must be reduced by the portion of the unpaid principal balance of the blanket mortgage that is attributable to the share loan.

For the applicable LTV/CLTV/HCLTV limits, see the Eligibility Matrix.

Ineligible Mortgage Loan/Amortization Types

Co-op share loans are ineligible under Flexible 97® and Flexible mortgage loans with subordinate financing.

Calculating the Loan-to-Value Ratio

The loan-to-value ratio is determined by dividing the unpaid balance of the co-op share loan by the lower of the sales price for the co-op unit (unencumbered by the unit's *pro rata* share of the co-op project's debt) or the appraised value of the co-op stock or shares and the related occupancy rights (unencumbered by the unit's *pro rata* share of the project's debt).

Acceptable Repayment Terms for Co-op Share Loans

A co-op share loan may be closed using any of the following repayment terms:

- A fixed-rate fully amortizing first mortgage with a maximum maturity of not more than 40 years; or
- Any standard ARM plan if the share loan will be sold to Fannie Mae as a whole loan. See the Standard ARM Plan Matrix for additional information.

Note:

- Lenders must obtain an individual negotiated contract for an MBS pool delivery.
- Fannie Mae's standard required margin for the ARM Plan under which a co-op share loan is originated must be increased by 25 basis points to reflect the increased risk of the co-op form of ownership.

Related Announcements

The table below provides references to the Announcements that have been released that are related to this topic.

Announcement	Issue Date
Announcement SEL-2010-06	April 30, 2010
Announcement SEL-2010-02	March 2, 2010